Exhibit 1 to the Salerno Declaration

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PETRÓLEOS DE VENEZUELA, S.A., PDVSA PETRÓLEO, S.A., and PDV HOLDING, INC., Plaintiffs, -against- MUFG UNION BANK N.A, and GLAS AMERICAS LLC, Defendants.	No. 19 Civ. 10023 (KPF)

EXPERT REPORT OF DAVID C. HINMAN, CFA

March 16, 2020

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EXPERT REPORT OF DAVID C. HINMAN

I. INTRODUCTION

A. Qualifications and Experience

1. My name is David Hinman. I am currently the sole proprietor of Hinman Capital Services through which I act as a financial services advisor to various investors as well as provide expert testimony in litigation. I have more than 25 years of asset management and finance experience, including as a portfolio manager for several bond mutual and hedge funds.

2. In particular, I have over 20 years of experience evaluating, trading, and managing funds that invested in emerging market debt securities, including sovereign bonds and bonds issued by state-owned enterprises ("SOEs"), including bonds issued by Petróleos de Venezuela, S.A. ("PDVSA"), Venezuela's state-owned oil company. Funds I have managed have also held sovereign or SOE bonds that were restructured (*i.e.,* exchanged for new debt instruments), which is a central issue in this case.

3. As an institutional debt investor, I have routinely evaluated bonds' risk-return trade-offs (*i.e.*, the merits of the investment). Investing in sovereign emerging market debt entails unique risks such as loss due to corruption and repudiation that other bond investments (*e.g.,* corporate and sovereign debt issues in developed countries) typically do not entail. As such, investing in sovereign emerging market debt requires investors to conduct substantial due diligence. Thus, as institutional debt investors typically do, I have routinely reviewed a host of information (such as publicly available market commentary and research reports that are available to institutional investors) to evaluate the merits of sovereign or SOE emerging market debt investments. In particular, such information includes: (a) bond offering materials which specify the contractual terms of the bond

offering, (b) market pricing data, (c) third-party credit rating agency reports, (d) market commentary, (e) company information, (f) macroeconomic data, and (g) brokerage analyst reports related to the bond or country at issue.

4. I began my investment career as an institutional debt investor at Pacific Investment Management Co. ("PIMCO"), one of the world's largest institutional debt investment advisors, where I worked from 1995 – 2005. For part of that time, I was responsible for managing various PIMCO bond funds. After PIMCO, I have worked at several hedge funds where I continued to advise and manage various debt funds. I worked at Ares Management as the Head of Capital Markets from 2005 to 2006. I worked at Drake Management as the Global Head of Credit from 2006 – 2009 where I managed several debt funds and also started and oversaw a team of investment professionals that invested exclusively in emerging market debt securities. In 2009, I founded SW Asset Management ("SWAM"), a boutique asset manager specializing in both corporate and sovereign emerging market debt investments. As SWAM's Co-Founder and Chief Investment Officer, I co-managed all SWAM portfolios, supervised trade execution, and created and implemented SWAM's investment policy.

5. I hold an MBA in Finance from the Wharton School of the University of Pennsylvania and a B.S. in Corporate Finance and Investment Management from the University of Alabama. I am a Chartered Financial Analyst (CFA) and I have passed the Series 3, 63, 65 and 7 licensing examinations.

6. My complete curriculum vitae, which includes my testifying experience, is attached as **Appendix A** to this report.

B. Background

1. Plaintiffs[1]

7. Petróleos de Venezuela, S.A. ("PDVSA"), which was formed in 1975, is wholly owned by the Venezuelan government and is a holding company for a group of oil and gas companies.[2] PDVSA wholly owns PDVSA Petróleo, S.A. ("PDVSA Petróleo") and PDV Holding Inc. ("PDV Holding," a U.S. company). PDV Holding in turn owns 100% of CITGO Holding, Inc. which is the "direct parent" of CITGO Petroleum Corporation ("CITGO"), a major U.S. based oil refiner.[3, 4]

2. The 2017 Notes and the Exchange Offer

8. Between April 2007 and January 2011, PDVSA issued senior unsecured notes with aggregate principal of $9.15 billion, that were due in 2017 (collectively, "2017 Notes").[5] On September 13, 2016, PDVSA announced an offer to exchange ("Exchange" or

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[1] *Petróleos de Venezuela, S.A., PDVSA Petróleo, S.A., and PDV Holding, Inc. v. MUFG Union Bank, N.A. and GLAS Americas LLC* in the United States District Court in the Southern District of New York. ("case" or "matter").

[2] Petróleos de Venezuela, S.A. Prospectus dated December 4, 2007, p. 1.

[3] I refer to PDVSA, PDVSA Petróleo, and PDV Holding collectively as "Plaintiffs."

[4] Petróleos de Venezuela, S.A. Offers to Exchange Offering Circular dated September 16, 2016 (the "2020 Notes Offering Circular"), p. 9.

[5] The 2017 Notes comprised of the:

> (a) "April 2017 Notes" which were issued on April 12, 2007, had an aggregate principal amount of $3 billion, promised coupon interest of 5.25%, matured April 12, 2017, and were offered in reliance on Regulation S under the U.S. Securities Act of 1933; and
>
> (b) "November 2017 Notes" which were issued on October 29, 2010 and January 18, 2011, had an aggregate principal amount of $6.15 billion, promised a coupon interest of 8.5%, were due November 2, 2017, and were offered in reliance on Regulation S and Rule 144A under the U.S. Securities Act of 1933.

(*See* Complaint for Declaratory and Injunctive Relief dated October 29, 2019 in *Petróleos de Venezuela, S.A., PDVSA Petróleo, S.A., and PDV Holding, Inc. v. MUFG Union Bank, N.A. and GLAS Americas LLC* in the United States District Court in the Southern District of New York ("Complaint"), ¶39). *See also*, Petróleos de Venezuela, S.A. Prospectus dated December 4, 2007, p. 5, and Petróleos de Venezuela, S.A. Listing Particulars dated March 17, 2011, pp. 5–6.

"Exchange Offer") the 2017 Notes for new senior secured notes maturing in 2020 ("2020 Notes").[6] According to the 2020 Notes Offering Circular:[7]

> The New [2020] Notes, the Guaranty and all other Obligations of the Issuer and the Guarantor under the Transaction Documents will be secured on a first-priority basis by the Collateral, which, pursuant to the terms of the Security Documents will include a first-priority security interest in 50.1% of the outstanding Capital Stock of CITGO Holding, held by PDV Holding Inc. (the "Pledgor").

3. The Purpose of the Exchange

9. According to the 2020 Notes Offering Circular, the "purpose of the Exchange Offers is to extend the maturities of and refinance" the 2017 Notes because "[e]xternal factors such as the recent decline in oil prices […] have affected the price at which [PDVSA] can sell [their] products."[8] PDVSA claimed that "it would be prudent to rearrange [PDVSA's] debt

[6] The Exchange offered investors:

> (a) U.S.$1,170 of 2020 Notes for each U.S.$1,000 in outstanding principal amount of the April 2017 Notes; and
>
> (b) U.S.$1,220 of 2020 Notes for each U.S.$1,000 in outstanding principal amount of the November 2017 Notes

In aggregate, PDVSA issued approximately U.S. $3,367,529,000 in principal amount of 2020 Notes. The 2020 Notes, which were issued on October 28, 2016 promised a coupon interest of 8.5%, were due October 28, 2020, and were offered in reliance on Regulation S and Rule 144A under the U.S. Securities Act of 1933.

See, Ana Isabel Martinez and Corina Pons, "Venezuela's PDVSA offers $7 billion bond swap to ease debt burden," *Reuters,* September 13, 2016. (https://www reuters.com/article/us-venezuela-pdvsa-idUSKCN11J2E2); 2020 Notes Offering Circular, p. 141; Petróleos de Venezuela, S.A. Offers to Exchange Supplement to Offering Circular dated September 26, 2016, p. 2; "PDVSA Announces Settlement of the Exchange Offers of its Outstanding 5.250% Senior Notes due 2017 and 8.50% Senior Notes due 2017 for New 8.50% Senior Secured Notes due 2020," *PRNewswire*, October 28, 2016. (https://www.prnewswire.com/news-releases/pdvsa-announces-settlement-of-the-exchange-offers-of-its-outstanding-5250-senior-notes-due-2017-and-850-senior-notes-due-2017-for-new-850-senior-secured-notes-due-2020-300353519 html).

[7] "Petróleos de Venezuela, S.A. (the "Issuer") will issue the new notes (the "New Notes") under an indenture (the "Indenture"), among the Issuer, PDVSA Petróleo, S.A. (the "Guarantor"), MUFG Union Bank, N.A. [a defendant], as trustee (the "Trustee"), GLAS Americas LLC [a defendant], as collateral agent (the "Collateral Agent"), Law Debenture Trust Company of New York, as principal paying agent (the "Principal Paying Agent"), as transfer agent (the "Transfer Agent"), as registrar (the "Registrar"), and Banque Internationale à Luxembourg, *société anonyme*, as Luxembourg listing agent and paying agent." *See* 2020 Notes Offering Circular, p. 140.

[8] 2020 Notes Offering Circular, p. 7. (Bracketed text added for clarification.)

profile, which was structured (when incurred) during different political and economic conditions."[9]

4. Challenges to the Exchange Offer

10. As explained in greater length below, the Exchange Offer faced several challenges before and after its announcement on September 13, 2016.

11. On May 26, 2016, before the Exchange Offer was announced, the opposition-controlled National Assembly of Venezuela ("National Assembly") passed a resolution declaring that "any national, state or municipal public contract entered into by the National Executive Power with… companies not domiciled in Venezuela without the approval of the National Assembly shall be absolutely null and void; as well as other national public contracts that are executed without such approval except where exempt by law."[10]

12. On September 27, 2016, after the Exchange Offer was announced but before the Exchange was completed, the National Assembly issued a subsequent resolution explicitly rejecting the Exchange and calling for an investigation of the Maduro regime's mismanagement of PDVSA and its misuse of PDVSA for political purposes.[11]

13. At the time, there was considerable public commentary regarding the National Assembly's opposition to the Exchange Offer, and the challenges associated with PDVSA's pledge of CITGO equity as collateral for the 2020 Notes, that I discuss later.

[9] 2020 Notes Offering Circular, p. 7. (Bracketed text added for clarification.)

[10] "Resolution on the Respect of the Specific and Non-transferable powers of the National Assembly Regarding Public Interest Contracts Entered Into by the National Executive with States or Official Foreign Entities or with Corporations Not Domiciled in Venezuela," National Assembly of the Bolivarian Republic of Venezuela, May 26, 2016. Translated by TransPerfect.

[11] Complaint Exhibit C, "Resolutions on the Current Financial Situation of Petróleos de Venezuela, S.A.," National Assembly of the Bolivarian Republic of Venezuela, September 27, 2016. Translated by TransPerfect.

14. On October 28, 2019, PDVSA failed to make a principal and interest payment of $913 million that was due on the 2020 Notes.[12]

15. Plaintiffs seek a judgement that the 2020 Notes and the purported pledge of collateral (*i.e.*, the "CITGO Shares") are "invalid, illegal, null and void *ab initio*, and thus unenforceable."[13]

C. Assignment

16. I have been retained by Paul Hastings LLP (PDVSA's and PDVSA Petróleo's counsel) and Willkie Farr & Gallagher LLP (PDV Holding's counsel) (collectively referred to as "Counsel") to evaluate whether:

a. From the time the Exchange Offer was announced in September 2016, investors would have and should have been aware of the "invalidity risk" associated with the 2020 Notes. In formulating an opinion on this issue, counsel has instructed me to assume that the term "invalidity risk" refers to the risk that the purported pledge of 50.1% of CITGO Holding's equity as collateral for the 2020 Notes in the Exchange ("CITGO Collateral") would be deemed invalid.

b. The Exchange Offer enriched PDVSA.

c. Investors who purchased 2017 Notes in the secondary market on the 2017 Notes' issuance dates or during the tender offer window, exchanged those notes for 2020 Notes, and held those 2020 Notes through today ("Exchanging Investors") lost money as a result of the Exchange.

D. Compensation

17. I bill on a time and materials basis for my work in connection with this assignment. My hourly rate is $750. Staff at Analysis Group, Inc. working under my direction and supervision have assisted me in this assignment and bill at their standard hourly rates. Payment for my services, or that of Analysis Group staff working under my direction and

[12] Arturo C. Porzecanski, "The PDVSA 2020 bond: time for a solution," *Financial Times*, November 18, 2019. (https://ftalphaville ft.com/2019/11/14/1573766503000/The-PDVSA-2020-bond--time-for-a-solution/).

[13] Additional reasons why the Plaintiffs contend that the 2020 Notes and the purported pledge of collateral are "invalid, illegal, null and void *ab initio*, and thus unenforceable" can be found in the Complaint ¶¶74 – 80.

supervision, does not depend in any way on the opinions that I form or the outcomes in this matter.

18. The materials that I have relied upon in reaching my conclusions are listed in **Appendix B** of this report. My work on this matter is ongoing, and I may review additional materials or conduct further analysis. To the extent that additional information comes to my attention, I reserve the right to update, refine, and/or revise my opinions.

II. SUMMARY OF OPINIONS

19. For reasons I explain in detail in this report, in my opinion:

a. Starting from September 2016 when the Exchange Offer was announced, sophisticated investors knew (or at a minimum should have known) of the invalidity risk related to the purported pledge of CITGO Collateral associated with the 2020 Notes, notwithstanding any representations in the 2020 Notes Transaction Documents ("Representations") to the contrary.[14]

i. My review of a host of contemporaneously available information that emerging market debt investors such as myself routinely review to evaluate the risk of a sovereign or SOE bond[15] indicates that the invalidity risk associated with the 2020 Notes' collateral was the subject of considerable public discussion[16] starting in September 2016 when the Exchange Offer was announced, and continuing thereafter, notwithstanding any Representations to the contrary.

[14] The Defendants (and Counterclaim-Plaintiffs) refer to purported PDVSA representations in their Affirmative Defenses and in their Counterclaims. The Counterclaims include a summary of such purported representations at paragraphs 143 – 147, which refer to alleged PDVSA representation and misrepresentations (both direct and by purported omission) in the Indenture, Pledge Agreement, and 2020 Notes Offering Circular (collectively referred to as "2020 Notes Transaction Documents"). I refer to these purported representations collectively in this report as the alleged PDVSA "Representations." *See* Defendants' Answer and Counterclaims dated December 18, 2019 in *Petróleos de Venezuela, S.A., PDVSA Petróleo, S.A., and PDV Holding, Inc. v. MUFG Union Bank, N.A. and GLAS Americas LLC* in the United States District Court in the Southern District of New York ("Counterclaims"), ¶¶143 – 147.

[15] Such information includes: the bond's contractual terms described in offering materials; the bond's price and the prices of comparable bonds; credit rating agencies' reports regarding the bond and/or its issuer's credit quality; financial information about the issuer; macroeconomic data about the country's economic performance and future prospects; market commentary and analyst reports about economic developments in the country and specific discussion about the credit quality of the bond at issue.

[16] For the purposes of this report, "public information" means information that institutional bond fund managers normally review, and could include broker analyst and rating agency reports which are available to investors for a fee.

ii. Hence, PDVSA noteholders would have been (or, at a minimum, should have been) aware of the invalidity risk associated with the 2020 Notes even before the Exchange was completed, notwithstanding any Representations to the contrary.

iii. The terms of the Exchange Offer were unusually favorable for investors:

- Per $1,000 of principal (or face value) of 2017 Notes tendered in the Exchange, investors received *more* than $1,000 in principal value of 2020 Notes (*i.e.,* a face value "*premium*").

- Investors who tendered April 2017 Notes in the Exchange were promised a higher coupon interest rate on the 2020 Notes.

- The Exchange required investors to extend their exposure to PDVSA's credit risk by 1.67 years ("maturity extension") by swapping 2017 Notes with a weighted average maturity of 0.83 years for 2020 Notes which had a weighted average maturity of 2.5 years.

- In my experience, in debt restructurings of this kind, the new notes that investors typically receive in exchange for their existing notes typically offer significantly worse terms, *viz.,* require investors to accept some combination of: a reduction in face value (a face value "haircut"), a lower coupon rate or a significantly longer weighted maturity.

- My experience in this regard is consistent with academic research on restructuring of "sovereign" debt, which includes debt issued by "the government of a sovereign state" as well as "an issuer which is fully or partially owned by the government [SOE], but which does not have taxing authority," such as PDVSA.[17]

- Despite its favorable terms, the response to the Exchange Offer was muted as only 39% of the 2017 Notes' outstanding principal was ultimately exchanged for 2020 Notes whereas the participation rate is typically significantly higher in sovereign debt restructurings (72% -100%). This muted response is consistent with investor awareness of and concern about the invalidity risk associated with the 2020 Notes even before the Exchange was completed.

[17] A comprehensive study of "sovereign" debt restructuring by the International Monetary Fund ("IMF") includes restructurings of debt issued by "quasi-sovereign" issuers, which the study defines as "an issuer which is fully or partially owned by the government [SOE], but which does not have taxing authority." (*See* Udaibir S. Das, Michael G. Papaioannou, and Christoph Trebesch, "Sovereign Debt Restructurings 1950–2010: Literature Survey, Data, and Stylized Facts," IMF working paper, Monetary and Capital Markets Department (2012), WP/12/203 ("Das et al. (2012)" or "IMF study"), p. 7 and p. 56). Therefore, henceforth, I refer to debt restructuring by sovereign governments *and SOEs* collectively as "sovereign" debt restructuring, as do academic studies on the subject such as Das et al (2012).

iv. The 2020 Notes' heavily-discounted price (32.492% of par) after these Notes failed to make a principal and interest payment on October 28, 2019 is consistent with investor awareness of the invalidity risk, notwithstanding any Representations to the contrary.

v. Fitch Ratings (a credit rating agency) did not estimate a significantly higher recovery rate for the 2020 Notes at issuance relative to PDVSA's other unsecured debt obligations, indicating that Fitch had heavily discounted the value of CITGO Collateral from the time the 2020 Notes were issued.

b. The Exchange Offer did not enrich PDVSA or PDV Holding. Instead, it contractually obligated PDVSA to make greater interest and principal payments over a longer time period than it would have been obligated to do absent the Exchange, and it only provided PDVSA with a relatively modest maturity extension.

c. Exchanging Investors have not lost money on their investment.

III. INVESTORS WOULD NOT, AND SHOULD NOT, HAVE RELIED ON REPRESENTATIONS THAT THE PLEDGE OF CITGO COLLATERAL WAS VALID GIVEN THE KNOWN INVALIDITY RISK ASSOCIATED WITH THE 2020 NOTES

20. Investing in emerging market SOE debt (such as the PDVSA Notes at issue in this case) entails unique risks, such as loss due to change in government policy and corruption, that other bond investments (*e.g.,* corporate and sovereign debt issues in developed countries) typically do not entail. Therefore, institutional investors routinely review a host of publicly available market commentary and reports issued by analysts and rating agencies that may affect a SOE bond's merits before investing in such debt. Institutional investors routinely continue monitoring such information after making an investment to keep abreast with market developments that may affect the investment's value.

21. The typical sources of information that an institutional investor considers in evaluating an SOE bond's merits[18] may include: (a) the bond's contractual terms, including the value of any collateral associated with the bond, (b) market commentary, (c) information about the

[18] In this case, the PDVSA Exchange Offer excluded "any tender that would result in the issuance of less than U.S. $150,000 principal amount of New Notes to a participating holder." (*See* 2020 Notes Offering Circular, p. 15.)

issuer, including its outstanding debt and relationship to the government, (d) market pricing data, (e) credit rating agency reports, (f) macroeconomic data, and (g) brokerage analyst reports related to the bond or country at issue.

22. My review of many of the information sources that institutional investors would typically consider in evaluating an emerging market debt investment confirms that a plethora of market and analyst commentary about the invalidity risk associated with 2020 Notes was publicly available from before the Exchange was completed up until October 2019 and afterwards. Hence, in my opinion, an institutional investor would have been aware (or at a minimum, should have been aware) of the invalidity risk associated with the 2020 Notes over this time period. In light of the known invalidity risk, it would not have been reasonable for sophisticated investors to assume that the purported pledge of CITGO Collateral was valid or to rely upon any Representations to that effect.

A. By September 2016, PDSVA's Growing Risk Of Default Was Being Closely Monitored By Market Participants Who Generally Viewed The Exchange Offer As Venezuela's Attempt To Stave Off Imminent Default

23. Venezuela has one of the world's largest oil reserves and its economy is largely dependent on it.[19] PDVSA's financial condition was linked to that of Venezuela because PDVSA was a state-owned entity and Venezuela used "PDVSA as a tool to support the country's fiscal and monetary policy."[20] A severe recession had gripped Venezuela by 2014 due to a significant decline in the country's oil production, coupled with the sharp decline in the

[19] Cesar J. Alvarez and Stephanie Hanson, "Venezuela's Oil-Based Economy," *Council on Foreign Relations,* February 9, 2009. (https://www.cfr.org/backgrounder/venezuelas-oil-based-economy).

[20] A March 2011 *Euromoney* money article cited Juan Cruz, a Venezuela analyst at Barclays Capital, as stating: "Increasingly, Venezuela has been using PDVSA as a tool to support the country's fiscal and monetary policy." *See* Jason Mitchell, "Venezuela: PDVSA issuance counteracts dollar shortage," *Euromoney*, March 30, 2011. (https://www.euromoney.com/article/b12kjf90wnpsmm/venezuela-pdvsa-issuance-counteracts-dollar-shortage).

global price of oil, among other factors.[21] In September 2014, BBC reported that the London-based economic research consultancy Capital Economics had predicted that Venezuela's GDP would “contract by a cumulative 5% in 2014-2015” and there was a “growing risk of a much deeper recession and default.”[22]

24. By December 2014, oil prices had hit a four-year low at $70 per barrel and, given its heavy reliance on the oil and gas revenues, Venezuela was thrown into “chaos” and experts believed that Venezuela’s economy was “set to implode.”[23]

25. The growing concerns about Venezuela’s and PDVSA’s credit quality led the ratings agency Fitch to downgrade PDVSA’s debt ratings on December 19, 2014.[24] Fitch downgraded PDVSA’s issuer default ratings (IDRs) to ‘CCC’ from ‘B’.[25, 26] This was the third downgrade of PDVSA’s debt by Fitch since 2007, when the PDVSA April 2017 Notes were first issued.[27] Fitch also “downgraded approximately USD26.4 billion of senior

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[21] “Venezuela confirms recession, highest inflation in Americas,” *CNBC,* December 30, 2014. (https://www.cnbc.com/2014/12/30/venezuela-confirms-recession-highest-inflation-in-americas html); and Silvana Ordoñez, “Venezuela’s future? ‘Barbarity and people looting,’” *CNBC,* December 1, 2014. (https://www.cnbc.com/2014/12/01/falling-crude-oil-prices-crush-venezuelas-ailing-economy html).

[22] “Venezuela's annual inflation rises to 63.4%,” *BBC*, September 10, 2014 (https://www.bbc.com/news/world-latin-america-29140359).

[23] Silvana Ordoñez, “Venezuela’s future? ‘Barbarity and people looting.’” *CNBC,* December 1, 2014. (https://www.cnbc.com/2014/12/01/falling-crude-oil-prices-crush-venezuelas-ailing-economy html). This article also noted that “Oil accounts for 95 percent of Venezuela’s export earnings, and combined with gas, it’s 25 percent of the country’s gross domestic product.”

[24] “Fitch Downgrades PDVSA’s IDRs to ‘CCC’,” *Business Wire*, December 19, 2014. (https://www.businesswire.com/news/home/20141219005906/en/Fitch-Downgrades-PDVSAs-IDRs-CCC).

[25] “Fitch Downgrades PDVSA’s IDRs to ‘CCC’,” *Business Wire*, December 19, 2014. (https://www.businesswire.com/news/home/20141219005906/en/Fitch-Downgrades-PDVSAs-IDRs-CCC).

[26] A rating of ‘CCC’ indicates a security is “speculative grade” and is seven ratings below the lowest “investment grade” rating given by Fitch. Fitch notes that a ‘CCC’ rating carries “Substantial credit risk. Default is a real possibility.” *See*, “Rating Definitions,” Fitch Ratings, pp. 3, 19. (https://www fitchratings.com/site/dam/jcr:6b03c4cd-611d-47ec-b8f1-183c01b51b08/Rating).

[27] On 3/27/2007, Fitch rated PDVSA BB-. Fitch downgraded PDVSA from BB- to B+ on 12/17/2008. Fitch again downgraded from B+ to B on 3/25/2014, and from B to CCC on 12/19/2014. S&P similarly rated PDVSA as BB- on

unsecured debt outstanding to 'CCC/RR4' from 'B/RR4.'"[28,29] Fitch noted that this downgrade of PDVSA's debt rating followed its "downgrade of the sovereign ratings of Venezuela to 'CCC' from 'B.'"[30] In downgrading PDVSA on December 19, 2014, Fitch noted that:[31]

> The downgrade of the sovereign ratings reflects the sharp decline of international oil prices, which increase balance of payments pressures in the context of reduced external financing flexibility and rising macroeconomic instability.
>
> KEY RATING DRIVERS
>
> PDVSA's credit quality reflects the company's linkage to the government of Venezuela as a state-owned entity, combined with increased government control over business strategies and internal resources. This underscores the close link between the company's credit profile and that of the sovereign.
>
> PDVSA's cash flow generation is significantly affected by the large amount of funds transferred to the central government each year. During 2013, total transfers to central government and external parties amounted to more than USD60 billion, or approximately 50% of total reported revenues in the form of royalties, social development expenditures, oil bartering agreements, taxes and dividends.

3/27/2007 and downgraded to B+ on 6/12/2009. S&P again downgraded from B+ to B on 6/7/2013, B to B- on 12/13/2013, and B- to CCC+ on 9/17/2014. (Data are from Bloomberg L.P.)

[28] "Fitch Downgrades PDVSA's IDRs to 'CCC'," *Business Wire*, December 19, 2014. (https://www.businesswire.com/news/home/20141219005906/en/Fitch-Downgrades-PDVSAs-IDRs-CCC).

[29] "Issuer Ratings: An Issuer Default Rating (IDR) is an assessment of an issuer's relative vulnerability to default on financial obligations, and is intended to be comparable across industry groups and countries. Issuers may often carry both Long-Term and Short-Term IDRs. Because both types of IDRs are based on an issuer's fundamental credit characteristics, a relationship exists between them." *See* "Corporate Rating Methodology – Effective 12 August 2011 to 8 August 2012," Fitch Ratings, p. 1. (https://www.fitchratings.com/site/re/647229).

[30] "Fitch Downgrades PDVSA's IDRs to 'CCC'," *Business Wire*, December 19, 2014. (https://www.businesswire.com/news/home/20141219005906/en/Fitch-Downgrades-PDVSAs-IDRs-CCC).

[31] "Fitch Downgrades PDVSA's IDRs to 'CCC'," *Business Wire*, December 19, 2014. (https://www.businesswire.com/news/home/20141219005906/en/Fitch-Downgrades-PDVSAs-IDRs-CCC).

26. Analyses of Venezuela's and PDVSA's worsening financial condition continued through 2015. In October 2015, The International Monetary Fund ("IMF") noted:[32]

> Venezuela has been pursuing unsustainable macroeconomic policies for several years on the back of widespread microeconomic distortions. This has resulted in high and rapidly increasing inflation (projected to be about 200 percent in 2015 and 2016), a severe scarcity of goods, and a black market exchange rate that is currently more than 100 times larger than the lowest official exchange rate (in a system of multiple exchange rates, but for which 95 percent of the transactions take place at the lowest official exchange rate). Against this backdrop, Venezuela was hard hit by the sudden fall in its terms of trade (which has also compressed fiscal revenues from the government-owned oil producer Petróleos de Venezuela (PDVSA), private sector confidence has collapsed, and the economy has been in a deep recession since 2014. Venezuela's GDP is projected to contract by about 10 percent in 2015 and 6 percent in 2016.

27. On January 20, 2016, a *Reuters* article commented: "Slumping crude prices have investors bracing for a messy default in Venezuela, where the sovereign and state-owned oil company PDVSA have some US$10bn in external debt payments due this year."[33] The same *Reuters* article further noted:[34]

> Barclays said the country will have difficulty avoiding a credit event in 2016 - and that is based on the bank's forecast of US$37 oil, almost $10 higher than current prices That sentiment seems to be widely shared in the market, even though President Nicolas Maduro assured the National Assembly last week that Venezuela would continue to pay what it owes. "It is a question of when, not if," said Russ Dallen, a partner at Latinvest in Miami, referring to the possibility of a default. "The only thing that could change that is a sharp recovery in oil prices, and/or a bailout from Venezuela's friends in China, Russia or Iran."

[32] "Regional Economic Outlook. Western Hemisphere: Adjusting Under Pressure," World Economic and Financial Surveys, International Monetary Fund, October 2015, pp. 28 – 29. (https://www.imf.org/~/media/Websites/IMF/imported-flagship-issues/external/pubs/ft/reo/2015/whd/eng/pdf/ _wreo1015pdf.ashx).

[33] Paul Kilby, "Oil rout raises fears of Venezuela debt default," *Reuters*, January 20, 2016. (https://www reuters.com/article/venezuela-bonds-idUSL2N1540UK).

[34] Paul Kilby, "Oil rout raises fears of Venezuela debt default," *Reuters*, January 20, 2016. (https://www reuters.com/article/venezuela-bonds-idUSL2N1540UK).

28. On August 4, 2016, Venezuela's National Assembly officially approved a resolution warning about PDVSA's financial crisis, which was closely linked to the deteriorating economic condition of the country.[35, 36] The resolution notes:

> Despite having managed about $840 billion in revenue from 1999 to 2015, the State has used PDVSA as a source of funding for political-partisan purposes, thereby hindering the company's investment in essential aspects within the industry such as exploration, extraction and distribution. This has led to Venezuela producing fewer barrels of oil today than it produced in 1997;
>
> …
>
> There are continuous reports of shutdowns and lack of maintenance in the production fields of the Orinoco Oil Belt. Even PDVSA itself recognizes such facts in its 2015 management report;
>
> …
>
> PDVSA's financial situation is that of an entity submerged in debt. Today the State owes creditors about $43 billion (four times the international reserves in August 2016), more than four times the amount the Company owed in 1998.

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[35] "Agreement To Notify The National Executive Regarding The Current Situation Of The State-Owned Company Petróleos De Venezuela SA (PDVSA)," National Assembly of the Bolivarian Republic of Venezuela, August 4, 2016. Translated by TransPerfect.

[36] As I discuss in more detail later, the close link in the financial condition of the state-owned enterprise, PDVSA, and that of the state (Venezuela), was recognized by market commentators, credit rating agencies, and investors. For example, Ashmore Group's head of research, Jan Dehn, noted "Venezuela is de facto an oil company with a country attached, where the country is becoming increasingly irrelevant." *See* Eshe Nelson, "Venezuela is too poor to import food and medicine. So why is the government still paying off its debt," *Quartz*, December 20, 2016. (https://qz.com/866593/venezuela-is-too-poor-to-import-food-and-medicine-so-why-is-the-government-still-paying-off-its-debt/).

29. External analyses in August of 2016 reflected strong concerns that the Maduro regime was corrupt and controlled a number of key Venezuelan institutions.[37,38] One such analysis reflecting concerns about the continued legitimacy of the Maduro regime from Jefferies stated:[39]

> We find it difficult to envision a scenario within which such an authoritarian and corrupt government is ousted peacefully through a referendum. At this point there should be little doubt that Chavismo's ultimate objective is to perpetuate itself in power, irrespective of the costs. If those costs involve the outright violation of the constitution, ignoring international pressures or even using violence, so be it.
>
> …

[37] Emails from Javier Kulesz to Jan Dehn, Herbert Saller, and Xin Xu "Jefferies LatAm Sovns – Venezuela commentary," dated August 1, 2016. (ASH_00000018 – 021; ASH_00001421 – 424; ASH_00001903 – 906); Emails from Javier Kulesz to Pablo Goldberg, "Jefferies LatAm Sovns – Venezuela commentary," dated August 1, 2016. (BLA_00000024 – 027); Emails from Jane Brauer to Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Venezuela Goodies: Congressional Research Service Report just released 22 Aug," dated August 23, 2016. (ASH_00002125); Emails from Jane Brauer to Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Venezuela Goodies: Congressional Research Service Report just released 22 Aug," dated August 23, 2016. (BLA_00003431; BLA_00003488 – 489); Emails from Javier Kulesz to Michel Aubenas, Herbert Saller, Xin Xu, Pablo Goldberg, Amer Bisat, Silvio Zanardini, and Sergio Trigo Paz, "Venezuela and Argentina commentary," dated August 25, 2016. ("In the meantime, the government is using all sorts of extortion tactics.") (BLA_00000009 – 011; BLA_00000354 – 356; BLA_00003557 – 559; BLA_00004441 – 443); Emails from Javier Kulesz to Jan Dehn, "Venezuela and Argentina commentary," dated August 25, 2016. (ASH_00000043 – 045; ASH_00001433 – 435; ASH_00006421 – 423).

[38] Analyses of the Venezuelan political situation through the remainder of 2016 routinely voiced similar concerns about the corrupt influence of the Maduro regime on Venezuelan institutions and generally in Venezuela. *See* email from Meilee Wong to Xin Xu, "LATAM: Venezuela: Maduro Denies Legislative Branch Budget Authority – Political Space Closed," dated October 1, 2016 ("This act lays ruin to the last vestige of democracy and constitutionality in Venezuela." (ASH_00006903 – 905); Email from Francisco Rodriguez to Jorge Piedrahita, "Supreme Court demand," dated October 20, 2016 ("My initial reaction is that this is likely part of a government strategy . . . [t]he Venezuelan government often sends out veiled threats that it may be willing to take some drastic action . . . .") (ASH_00007026 – 027); Emails from Javier Kulesz to Xin Xu, Jan Dehn, Herbert Saller, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Jefferies LatAM Sovns – Venezuela and Argentina commentary," dated October 26, 2016 ("It's hard to envision an untrustworthy government that has violated every possible contract, excluding your bonds, striking a deal when its sole objective is to control power regardless of the consequences.") (ASH_00007140 – 144; ASH_00004413 –417; ASH_00006137 – 141); Emails from Javier Kulesz to Xin Xu, Jan Dehn, Herbert Saller, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Jefferies LatAM Sovns – Venezuela and Argentina commentary," dated October 26, 2016. (BLA_00001608 – 611; BLA_00001612 – 616); Mark P. Sullivan, Congressional Research Service, "Venezuela: Background and U.S. Relations," dated November 21, 2016 (ASH_00003589 – 646).

[39] Emails from Javier Kulesz to Jan Dehn, Herbert Saller, Xin Xu, and Pablo Goldberg, "Jefferies LatAm Sovns – Venezuela commentary," dated August 1, 2016. (ASH_00000018 – 021; ASH_00001421 – 424; ASH_00001903 – 906); Emails from Javier Kulesz to Jan Dehn, Herbert Saller, Xin Xu, and Pablo Goldberg, "Jefferies LatAm Sovns – Venezuela commentary," dated August 1, 2016. (BLA_00000024 – 027).

> So, with heightened tensions in the three branches of government, we should start to contemplate the emergence of a parallel state. That is, two national assemblies (one with the opposition controlling a super majority), two supreme courts, and eventually two executives . . . ."

30. Market participants, such as Jan Dehn of Ashmore Group Plc (one of the largest holders of 2020 Notes), reflected awareness of the corruption and mismanagement of the Maduro regime at the time, writing: "It is one of the most miserable, mismanaged, hopeless countries on the planet . . . [b]ut that doesn't mean you can't make money."[40]

31. An article in *USA Today* dated August 27, 2016, noted:[41]

> Venezuela is facing the worst economic and humanitarian crisis in its history. Venezuela has been hit by the 24 months collapse in oil prices. Its economy is expected to shrink 10 percent at the end of 2016, the biggest contraction in the last 13 years, while inflation has reached more than 700 percent according to the International Monetary Fund (IMF). Other analysts say that inflation has already reached 1,000 percent.
>
> Venezuelans are living day-by-day facing a very complicated situation with rising crime and corruption rates, daily electricity blackout, medicines and food shortage (more than 80 percent). Venezuelans can't get even the most basic lifesaving medical supplies as antibiotics.
>
> On Monday 22th August 2016 Brent oil traded around $49 a barrel, but two years before Brent was $102 a barrel, and even then Venezuela was already having economic problems. Even with a recovery in crude, higher prices are unlikely to solve the economic, humanitarian and political crisis. [...]
>
> In Venezuela 96 percent of foreign currency earnings come from oil industry and with the collapse of the oil prices the income has fallen more

[40] Quote from Jan Dehn. (ASH_00006371); [redacted] *see also* Email from Ben Ramsey to Jan Dehn, Herbert Saller, Xin Xu, Michel Aubenas, and Pablo Goldberg, "Weekly," dated August 3, 2016 ("However, so long as [Energy Minister and PDVSA President Eulogio] del Pino remains at PDVSA, he will likely be able to anchor the status-quo vision that the company—which faces the bulk of payments this year and next—will make every effort to stay current on its obligations, with the short-term goal of carrying out a market-friendly exchange…"). (ASH_00000030 – 034 at 031 – 032; ASH_00005828 – 832 at 830; ASH_00006261 – 265 at 263); Email from Ben Ramsey to Jan Dehn, Herbert Saller, Xin Xu, Michel Aubenas, and Pablo Goldberg, "Weekly," dated August 3, 2016. (BLA_00000001 – 005 at 003; BLA_00003334 – 338 at 336).

[41] Luis Colasante, "Is doomsday inevitable for Venezuela?" *USA Today*, August 27, 2016. (https://www.usatoday.com/story/money/markets/2016/08/27/doomsday-inevitable-venezuela/89335716/).

> 50 percent [sic]. But in addition to declining revenues, oil production has also dropped, doubling the pain for Venezuela.
>
> The problems could grow worse. Several oil service companies suspended or slowed operations in Venezuela this year due to difficulties in obtaining payment from the state-run oil company, Petróleos de Venezuela (PDVSA). Contractors have cut back on drilling in Venezuela amid rising unpaid debt, which threatens to take Venezuela's output down even further.

32. The same article quoted Rice University professor, Dr. Francisco Monaldi, as stating that:

"In recent years PDVSA's debt has increased from $3 billion to more than $43 billion."[42]

33. By August 2016, hyperinflation had gripped Venezuela. An August 2016 IMF working paper noted:[43]

> Headline consumer price inflation averaged 88 percent in 2015 and rose to 180 percent by year end. Some components of the consumer basket with a high dependence on imported goods experienced inflation rates well above the overall index. For example, food inflation ended the year above 300 percent and tobacco and alcohol increased by nearly as much. In the meantime, the black market exchange rate rose 380 percent, ending the year at a rate of 833 bolivars per dollar.
>
> Venezuela recently experienced a sharp decline in oil prices. Its oil basket commanded nearly $100 per barrel in mid-2014. Reflecting the global fall in oil prices in the second half of 2014, the price of Venezuela's oil plunged to $47 per barrel by end-2014 and declined further to $29 per barrel by end-2015. This led to a substantial decline in oil revenues and PDVSA's operating surplus.
>
> Output contracted sharply. […] [A]anecdotal evidence suggests that scarcity of basic and intermediate goods continued to worsen. According to the central bank, output has contracted every quarter since the first quarter of 2014. The recession continues to deepen, with output contracting 7 percent in the third quarter of 2014. Anecdotal evidence suggests that many production facilities have had to be shut down due to the lack of necessary imports of intermediate inputs.

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[42] Luis Colasante, "Is doomsday inevitable for Venezuela?" *USA Today*, August 27, 2016. (https://www.usatoday.com/story/money/markets/2016/08/27/doomsday-inevitable-venezuela/89335716/).

[43] Valerie Cerra, "Inflation and the Black Market Exchange Rate in a Repressed Market: A Model of Venezuela," *International Monetary Fund*, August 2016 (*See* Section II: Background).

34. As is evident from the above citations, by the time of the Exchange Offer in September 2016, there was considerable market commentary about PDVSA's growing risk of default. With that context, the Exchange Offer was seen as an attempt by the Maduro regime to buy time and stave off default that seemed inevitable unless oil prices recovered, or the country obtained other sources of financing. As a *Financial Times* article on September 26, 2016 noted:[44]

> Venezuela has defied the doomsayers, managing to stay current on its debts, even as the country slides into a deepening state of chaos. But its state oil company has now thrown in the towel — a move that will probably presage a wider, most likely messy default and debt restructuring.
>
> The head of Petróleos de Venezuela (PDVSA) last week unveiled plans to swap more than $7bn of bonds maturing next year with longer-dated debts due in 2020. To sweeten the deal for investors, PDVSA offered up its US subsidiary Citgo Petroleum as collateral.
>
> Venezuela hopes that a successful debt exchange will buy time, betting that oil prices will eventually recover and improve its finances. **But lawyers question the legality of the proposed swap**; S&P said it would constitute a default by PDVSA, and many analysts see the move as a curtain-raiser for an inevitable restructuring of Venezuela's national debts.
>
> PDVSA's proposed debt swap is also complicated by the proposal to offer up to 50.1 per cent of Citgo as security for bondholders who agree to the deal. Firstly, it is already the state oil company's main seizable asset in case of a default; secondly, if it is fully pledged to underpin the bond swap then it would in practice deprive other bondholders of their main security. Lawyers say this would therefore probably fall foul of the "negative pledge" clause in PDVSA's existing bonds. [emphasis added]

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[44] Robin Wigglesworth and Andres Schipani, "Venezuelan oil major's debt swap: the beginning of the end?" *Financial Times*, September 26, 2016. (https://www.ft.com/content/aadf657c-7f4a-11e6-8e50-8ec15fb462f4). *See also*, Email from Russ Dalen, "FT: Venezuelan oil major's debt swap - the beginning of the end?" dated September 26, 2016 (ASH_00002429 – 432).

The article refers to the "negative pledge" clause in PDVSA's existing bonds, which is a negative covenant that prevents PDVSA from assuming any additional liens to secure a new debt issue without equally securing its existing debt. *See*, Petróleos de Venezuela, S.A. Prospectus dated December 4, 2007, p. 90. *See also*, Leland E. Crabbe and Frank J. Fabozzi, "Managing Corporate Bond Portfolio," *Wiley*, 2002, Chapter 2, pp. 18 – 19.

B. There Was Considerable Commentary Available And Received By Market Participants About The Invalidity Risk Associated With The 2020 Notes, Starting Immediately After The Exchange Offer Was Announced And Continuing Through October 2019 When PDVSA Missed A Payment On The 2020 Notes

35. **Table 1** summarizes key dates relating to the Exchange Offer.

Table 1: Timeline of Relevant Events

Date	Description of Event
5/26/2016	National Assembly reaffirms constitutional authority over national public interest contracts[45]
9/13/2016	Exchange Offer Announcement[46]
9/16/20116	Initial 2020 Notes Offering Circular
9/26/2016	Supplement to 2020 Notes Offering Circular[47]
9/27/2016	National Assembly denounces Exchange and calls for investigation[48]
9/29/2016	Initial Exchange Offer Early Tender deadline[49]
10/6/2016	(First) Extended Exchange Offer Early Tender deadline[50]
10/12/2016	(Second) Extended Exchange Offer Early Tender deadline[51]
10/14/2016	Initial Exchange Offer deadline[52]
10/17/2016	(Third) Extended Exchange Offer Early Tender and (Second) Exchange Offer deadline[53]
10/21/2016	(Fourth) Extended Exchange Offer Early Tender and (Third) Exchange Offer deadline[54]
10/28/2016	2020 Notes Issue Date[55]
4/12/2017	April 2017 Notes' Maturity Date[56]
11/2/2017	November 2017 Notes' Maturity Date[57]
10/15/2019	National Assembly reiterates the Indenture was not authorized[58]
10/28/2019	Missed Principal and Interest Payment of $913 Million on the 2020 Notes[59]

[45] "Resolution on the Respect of the Specific and Non-Transferable Powers of the National Assembly Regarding Public Interest Contracts Entered Into by the National Executive with States or Official Foreign Entities or with Corporations Not Domiciled in Venezuela," National Assembly of the Bolivarian Republic of Venezuela, May 26, 2016. Translated by TransPerfect.

[46] Ana Isabel Martinez and Corina Pons, "Venezuela's PDVSA offers $7 billion bond swap to ease debt burden," *Reuters*, September 13, 2016. (https://www reuters.com/article/us-venezuela-pdvsa-idUSKCN11J2E2).

[47] Petróleos de Venezuela, S.A. Offers to Exchange Supplement to Offering Circular dated September 26, 2016.

[48] Complaint Exhibit C, "Resolutions on the Current Financial Situation of Petroleos de Venezuela, S.A.," National Assembly of the Bolivarian Republic of Venezuela, September 27, 2016. Translated by TransPerfect.

[49] Francisco Rodríguez, "Venezuela this Week: October 11-16, 2016 Of Laws and Bonds," *Torino Capital LLC*, October 11, 2016. (ASH_00006934 – 941 at 939).

[50] Francisco Rodríguez, "Venezuela this Week: October 11-16, 2016 Of Laws and Bonds," *Torino Capital LLC*, October 11, 2016. (ASH_00006934 – 941 at 939).

[51] Francisco Rodríguez, "Venezuela this Week: October 11-16, 2016 Of Laws and Bonds," *Torino Capital LLC*, October 11, 2016. (ASH_00006934 – 941 at 939).

[52] Alexandra Ulmer and Corina Pons, "Venezuela PDVSA bond prices slip after debt swap again extended," *Reuters*, October 13, 2016. (https://www.reuters.com/article/us-venezuela-pdvsa-debt/venezuela-pdvsa-bond-prices-slip-after-debt-swap-again-extended-idUSKCN12D1VK).

36. I next discuss the extensive market commentary on the invalidity risk associated with the 2020 Notes in the financial press and in research reports issued by Wall Street analysts. Such extensive public commentary suggests that the invalidity risk was very significant to investors because it garnered widespread coverage despite it being a "tail risk."[60] Invalidity risk was a "tail risk" because it would materialize only if: (a) the 2020 Notes defaulted at maturity, or before they matured; *and* (b) there was a power transition in Venezuela from the Maduro administration to the opposition before such a default had

[53] Alexandra Ulmer and Corina Pons, "Venezuela PDVSA bond prices slip after debt swap again extended," *Reuters*, October 13, 2016. (https://www.reuters.com/article/us-venezuela-pdvsa-debt/venezuela-pdvsa-bond-prices-slip-after-debt-swap-again-extended-idUSKCN12D1VK).

[54] "PDVSA Announces Extension of the Early Tender Deadline and the Expiration Date for its Offers to Exchange its Outstanding 5.250% Senior Notes due 2017 and 8.50% Senior Notes due 2017 for New 8.50% Senior Secured Notes due 2020," *PR Newswire,* October 17, 2016. (https://www.prnewswire.com/news-releases/pdvsa-announces-extension-of-the-early-tender-deadline-and-the-expiration-date-for-its-offers-to-exchange-its-outstanding-5250-senior-notes-due-2017-and-850-senior-notes-due-2017-for-new-850-senior-secured-notes-due-2020-300346322.html).

[55] "PDVSA Announces Settlement of the Exchange Offers of its Outstanding 5.250% Senior Notes due 2017 and 8.50% Senior Notes due 2017 for New 8.50% Senior Secured Notes due 2020," *PR Newswire*, October 28, 2016. (https://www.prnewswire.com/news-releases/pdvsa-announces-settlement-of-the-exchange-offers-of-its-outstanding-5250-senior-notes-due-2017-and-850-senior-notes-due-2017-for-new-850-senior-secured-notes-due-2020-300353519.html).

[56] Petróleos de Venezuela, S.A. Prospectus dated December 4, 2007.

[57] Petróleos de Venezuela, S.A. Listing Particulars dated March 17, 2011.

[58] Complaint Exhibit D, "Resolutions that Reiterates the Invalidity of PDVSA's 2020 Bonds," National Assembly of the Bolivarian Republic of Venezuela, October 15, 2019. Translated by TransPerfect.

[59] Arturo C. Porzecanski, "The PDVSA 2020 bond: time for a solution," *Financial Times*, November 18, 2019. (https://ftalphaville ft.com/2019/11/14/1573766503000/The-PDVSA-2020-bond--time-for-a-solution/).

[60] A tail risk refers to a risk with low probability of occurrence but dramatic significance if it did occur. As PIMCO explains, "'Tails' refer to the end portions of distribution curves, the bell-shaped diagrams that show statistical probabilities for a variety of outcomes. …[I]n a normal bell curve, the most probable returns are concentrated in a bulge near the center, which is the average expected return, or the mean, with less probable, more extreme returns tapering away toward the edges. The tails on the far left and far right represent the least likely, most extreme outcomes: lowest returns on the left," which have a low likelihood of occurring.("Tail Risk," *PIMCO*. (https://www.pimco.com/en-us/resources/education/understanding-tail-risk).)

occurred;[61] *and* (c) the successor government refused to honor the purported pledge of the CITGO Collateral.

37. There was considerable political unrest in Venezuela in the months leading up to the Exchange Offer which sophisticated investors were aware of given the contemporaneous market commentary on the subject. For instance, in a July 2016 research report, the investment firm, Ashmore Group discussed the implications of the much-publicized campaign to recall President Maduro. The report noted that "the prospect of a change in government through a recall from office of President Maduro is improving and will likely usher in a far more pragmatic government."[62] Siobhan Morden, Managing Director and Head of Latin America Fixed Income Strategy at Nomura Securities International noted in a September 2016 report to institutional investors such as Ashmore Group that the recall referendum had been delayed which "disappoints for the uncertainty of any clear path towards political and economic transition." In her view, "The longer the transition takes then the worse trade-off to bondholders in terms of declining assets and increasing USD liabilities."[63]

38. *Reuters* reported on September 13, 2016, the day the Exchange Offer was announced, that analysts and investors had concerns regarding the pledge of CITGO shares as collateral:[64]

> The success of the operation will depend on participation of bondholders […] Investors consulted by Reuters in recent weeks said they had no formal conversations with PDVSA regarding the operation, which is a common

[61] The Maduro administration was in favor of the Exchange and would be unlikely to subsequently question its validity.

[62] Jan Dehn and Gustavo Medeiros, "Latin America: The best investment proposition in the world today," *Ashmore Group*, July 2016. (http://www.ashmoregroup.com/sites/default/files/article-docs/MC_14July2016_2.pdf).

[63] Email from Siobhan Morden to undisclosed recipients, "Nomura | Venezuela: it's all about politics," *Nomura*, August 10, 2016. (ASH_00000666 – 668 at 666).

[64] Ana Isabel Martinez and Corina Pons, "Venezuela's PDVSA offers $7 billion bond swap to ease debt burden," *Reuters,* September 13, 2016. (https://www reuters.com/article/us-venezuela-pdvsa-idUSKCN11J2E2).

> way of gauging market conditions and ensuring bondholders are aware the operation is on its way. […]
>
> Some are concerned about potential political opposition to using CITGO shares. **Critics in the opposition, which now controls the National Assembly, argue involving CITGO would constitute a de facto privatization of a state asset that requires parliamentary approval**. [emphasis added.]

39. The same day, ACG Analytics, an independent investment research firm, published a report highlighting the invalidity risk associated with the Exchange.[65]

> With a hard deadline of October 28th, when the $1 billion PDVSA 2016 bond matures, an announcement is expected today or in coming days**.** It remains to be seen whether this transaction will require passage by the National Assembly in order assure its validity to a potential new government should a transition occur during the life of the bonds in question. Article 312 of Venezuela's constitution requires legislative consent for transactions of this nature either sovereign or concerning PDVSA. **An opposition legislator has already written the PDVSA president claiming that using Citgo assets in the U.S. as collateral constitutes a privatization requiring passage by the assembly**. [emphasis added.]

40. On September 18, 2016, Nomura's Siobhan Morden noted that "[t]he make or break of the exchange is the assessment of the equity valuation and the legal risks."[66] According to Ms. Morden, the legal risks associated with the 2020 Notes included:[67]

> [O]pinions from local lawyers suggesting that all international transactions (such as the recent deal with Gold Reserve and this PdVSA debt exchange) would require legislative approval or otherwise risk illegality. […]

[65] Email from Meilee Wong to Xin Xu, "LATAM: Venezuela: PDVSA Swap in the Works - Questions Remain on Legislature's Role," dated September 13, 2016. (ASH_00002364 – 366 at 364).

[66] Email from Siobhan Morden to Patrick Haller, Michel Aubenas, Pablo Goldberg and 27 others, "Venezuela | PdVSA exchange," *Nomura*, September 18, 2016. (ASH_00000743 – 746 at 743); Email from Siobhan Morden to Patrick Haller, Michel Aubenas, Pablo Goldberg and 27 others, "Venezuela | PdVSA exchange," *Nomura*, September 18, 2016. (BLA_00004810 – 811 at 810; BLA_00000556 – 558 at 557).

[67] Email from Siobhan Morden to Patrick Haller, Michel Aubenas, Pablo Goldberg and 27 others, "Venezuela | PdVSA exchange," *Nomura*, September 18, 2016. (ASH_00000743 – 746 at 743); Email from Siobhan Morden to Patrick Haller, Michel Aubenas, Pablo Goldberg and 27 others, "Venezuela | PdVSA exchange," *Nomura*, September 18, 2016. (BLA_00004810 – 811 at 810; BLA_00000556 – 558 at 557).

41. On September 19, 2016, a UBS analyst report [redacted]

[redacted]

42. On September 19, 2016, in an email to Jan Dehn, Head of Research at Ashmore Group, a Jefferies analyst, Javier Kulesz, listed reasons why investors might discount the value of the 2020 Notes' collateral. One such reason, according to Mr. Kulesz, was the fact that the Venezuelan opposition had "already challenged the use of Citgo equity to back this deal on legal grounds. If privatizations require congressional approval, as they do, they may have a point."[69] Mr. Kulesz noted: [70]

[68] Alejo Czerwonko, "Venezuela bonds: Of politics and swaps," *UBS*, September 19, 2016, p. 3. (UBS-PDV000001 – 009 at 003).

[69] Email from Javier Kulesz to Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 27 others, "Jeffries LatAm Sovns – The PDVSA swap," dated September 19, 2016. (ASH_00004192 – 194 at 192; ASH_00005982 – 984 at 982 – 983; ASH_00006721 – 723 at 721 – 722); Email from Javier Kulesz to Pablo Goldberg, Sergio Trigo Paz and 27 others, "Jeffries LatAm Sovns – The PDVSA swap," dated September 19, 2016. (BLA_00000640 – 642 at 640 – 641; BLA_00000643 – 645 at 643 - 644).

[70] Email from Javier Kulesz to Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 27 others, "Jeffries LatAm Sovns – The PDVSA swap," dated September 19, 2016. (ASH_00004192 – 194 at 192; ASH_00005982 – 984 at 982 – 983; ASH_00006721 – 723 at 721 – 722); Email from Javier Kulesz to Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 27 others, "Jeffries LatAm Sovns – The PDVSA swap," dated September 19, 2016. (BLA_00000640 – 642 at 640 – 641; BLA_00000643 – 645 at 643 - 644).

> If we are right to think that markets will attach little or even no value to this guarantee, then private investors holding both PDVSA17s won't find many reasons to participate.

43. Also on September 19, 2016, *Reuters* reported that Fitch had announced that it expected to issue the 2020 Notes a "CCC/RR4(exp)" rating which "suggests a real possibility of default."[71] The article noted that the rating agency Standard & Poor's ("S&P") had already downgraded PDVSA to CC from CCC and declared that the "proposed bond swap" was a "distressed exchange" that would be "tantamount to default" if completed, a blow to the cash-strapped firm's effort to seek a financial lifeline."[72] *Reuters* noted that:[73]

> The announcement will likely further fuel skepticism about the plan to ease PDVSA's $7.1 billion amortization burden in 2017 as it struggles to make ends meet under low oil prices and an unraveling economy.
>
> PDVSA has nonetheless promised it will honor bond commitments no matter the fate of the swap, and investors broadly believe it will continue making debt payments despite triple-digit inflation, product shortages and a deep recession. […]
>
> The swap offers one new bond for each outstanding 2017 maturity, which some Wall St. analysts saw as insufficient to make the operation attractive. "Bondholders may still be reluctant to exchange their bonds ... into a relatively high cash price bond on the still uncertain repayment capacity over the next 2 years," wrote Siobhan Morden, Head of Latin America Fixed Income Strategy at Nomura. […]
>
> The company's bonds were down across the board on Monday even before the S&P announcement as concern about the value of the proposal **and doubts about the legal underpinning of the CITGO guarantee weakened investor confidence. Venezuela's opposition, which controls**

[71] Eyanir Chinea and Brian Ellsworth, "S&P says PDVSA bond swap offer 'tantamount to default'," *Reuters,* September 19, 2016. (https://www.reuters.com/article/us-venezuela-pdvsa-debt-idUSKCN11Q05F).

[72] Eyanir Chinea and Brian Ellsworth, "S&P says PDVSA bond swap offer 'tantamount to default'," *Reuters,* September 19, 2016. (https://www.reuters.com/article/us-venezuela-pdvsa-debt-idUSKCN11Q05F).

[73] Eyanir Chinea and Brian Ellsworth, "S&P says PDVSA bond swap offer 'tantamount to default'," *Reuters,* September 19, 2016. (https://www.reuters.com/article/us-venezuela-pdvsa-debt-idUSKCN11Q05F).

> **parliament, has said it will oppose the use of CITGO as collateral.** [emphasis added]

44. On September 21, 2016, Venezuelan Congressman José Guerra, from the Democratic Unity Board (which was in opposition to President Maduro) was interviewed by CNN about the legal basis for his party's opposition to PDVSA's pledge of CITGO collateral to the 2020 Notes by in the Exchange. Mr. Guerra stated:[74]

> [W]e are not opposing the swap, from the legal point of view, if there is no collateral, because PDVSA is a limited company and, and is not subject to the financial administration law, which obliges the government to consult with Congress on indebtedness. But, since there is a national asset as collateral, then Congress gets involved […].

45. Mr. Guerra stated that his party would demand that:[75]

> PDVSA to come to Congress, explain the swap, and [Congress] will discuss whether it is legal to put the refinery up as collateral, as a guarantee - the 3 CITGO refineries, the 8,000 CITGO gas stations, because in case they do not pay that back …these Venezuelan companies will go to the creditors. … National assets are being affected there. And, I think that the very least a parliament must do is to discuss this issue.

46. On September 27, 2016, the National Assembly of Venezuela issued a resolution explicitly rejecting the exchange:[76]

> …To reject categorically that, within the swap transaction, 50.1% of the shares comprising the capital stock of Citgo Holding Inc. are offered as a guarantee with priority, or that a guarantee is constituted over any other property of the Nation.
>
> [The National Assembly called for] an investigation to determine if the current transaction protects the National Property, in accordance with

[74] Congressman Jose Guerra Interview with CNN, September 21, 2016, p. 3. Transcript by TransPerfect.

[75] Congressman Jose Guerra Interview with CNN, September 21, 2016, p. 3. Transcript by TransPerfect.

[76] Complaint Exhibit C, "Resolutions on the Current Financial Situation of Petroleos de Venezuela, S.A.," The National Assembly of the Bolivarian Republic of Venezuela, September 27, 2016. Translated by TransPerfect. *See also*, Francisco Rodriguez, "Venezuela this Week: October 3-9, 2016 The Fine Print," *Torino Capital LLC*, dated October 3, 2016. (ASH_00006907 – 915 at 911 – 912).

articles 187, section 9, 302 and 303 of the Constitution of the Bolivarian Republic of Venezuela.

47. Press reports also discussed the comments by Freddy Guevara, the deputy to the National Assembly, in the National Assembly's debate on the subject. For instance, one article noted that Mr. Guevara had said:[77]

> "Before, Venezuela's GDP used to depend on 40% of oil revenues, but this government has made us almost wholly dependent on oil. Today, the domestic economy depends 80% on that industry. How is it possible that in this day and age in which more money entered the country as crude oil revenues we are more in debt than ever? For two reasons: the first, thanks to Chávez and his disastrous energy policy and the second, because of corruption. This is why that from this National Assembly, we will not be co-responsible for the embezzlement of Pdvsa and Venezuela", emphasized Deputy Guevara. […]
>
> How can they try to put the country further into debt without the knowledge or the authorization of the National Assembly? The government has the obligation to explain to the people how State funds are allocate and how we will perform our constitutional duty to supervise the use of public funds. The Executive Branch has shown itself more and more to be highly inefficient, negligent and destructive of the economy and we will not be co-responsible for the embezzlement of the nation", he emphasized.
>
> In this sense, the Parliamentarian underlined that the country has no guarantee that Pdvsa is able to pay the increase in its debt and alerted that in case it cannot meet its new obligations, the holders of these bonds would become owners of CITGO, in flagrant breach of national sovereignty.
>
> **In this regard, Guevara assured that Parliament "will not recognize any public contract that is not considered or authorized by the Legislative Branch in accordance with the Constitution.**
>
> **"We will not pay for the broken crockery of a small group of crooks that destroyed Venezuela. Not only do we not recognize these transactions, we will also investigate everyone involved in the**

[77] Lysaura Fuentes, "Freddy Guevara: Government has proven negligent and destructive of the economy," *El Cooperante*, September 28, 2016. Translated by TransPerfect. *See also*, "Del Pino must explain terms of the PDVSA Bond Exchange to the AN," *Petróleo* América, September 27, 2016. Translated by TransPerfect.

> **sale because it would be implying an embezzlement of the Nation", he asserted.** [emphasis added]

48. On September 27, 2016, an article in *El Nacional*, a Venezuelan news outlet, quoted a constitutional lawyer as saying that the decree that purportedly allowed PDVSA to place CITGO as collateral in the bond exchange was unconstitutional.[78]

49. On October 11, 2016, a Torino Capital[79] report noted that the tender deadline for the Exchange Offer had been extended twice by PDVSA because the offers PDVSA had received "were substantially below the 50% target participation rate."[80] According to the report, the invalidity risk associated with the 2020 Notes may have deterred some 2017 Noteholders from tendering their notes in the Exchange. In particular, the report noted:[81]

> [W]hy are investors not participating? […] Other investors may be concerned about the legal risks associated with the new bond, given the perceived possibility of non-recognition by a future MUD government as well as the current legal actions against CITGO. They thus may expect that the market will not only discount the collateral on the 2020 but perhaps also force it to trade at an additional discount given concerns about the legality of the issuance.

[78] "Debt Issue Under New Decree Will be Void," *El Nacional (Venezuela)*, September 17, 2016. Translated by TransPerfect. *See also*, Email from Javier Kulesz to Ricardo Xavier, Jan Dehn, Herbert Saller, "Jefferies LatAm Sovns – Venezuela commentary," dated September 27, 2016 ("What's more important about this guarantee is a) it's (i)liquidity, b) the (lower) Citgo equity left under the PDVSA default scenario, which is in the end what markets care about, and c) its (il)legality to the extent that the National Assembly hasn't blessed this transaction."). (ASH_00006823 – 826; ASH_00000224 – 226; ASH_00001519 – 521); Email from Javier Kulesz to Ricardo Xavier, Xin Xu dated September 27, 2016 (ASH_00002433 – 435; ASH_00006820 – 822); Email from Javier Kulesz to Pablo Goldberg, Segio Trigo Paz and 26 others, dated September 27, 2016, (BLA_00000860 – 862; BLA_00000863 – 865).

[79] Torino Capital, LLC is "a New York-based investment bank and broker dealer." *See* "About Torino," *Torino Capital.* (https://torinocap.com/about-torino/). The firm's "trading desks provide liquidity in sovereign and corporate eurobonds in the emerging markets space. In particular, [Torino Capital] specializes in Latin American, Central/Eastern European and Central Asian debt transactions." *See* "Products," *Torino Capital. (*https://torinocap.com/products/).

[80] Francisco Rodríguez, "Venezuela this Week: October 11-16, 2016 Of Laws and Bonds," *Torino Capital LLC*, October 11, 2016, p. 2; *see also* (same) (ASH_00006934 – 941 at 935).

[81] Francisco Rodríguez, "Venezuela this Week: October 11-16, 2016 Of Laws and Bonds," *Torino Capital LLC*, October 11, 2016, pp. 6 – 7; *see also* (same) (ASH_00006934 – 941 at 939 – 940).

50. Goldman Sachs research published on October 13, 2016 also highlighted the fact that the National Assembly questioned the legitimacy of the CITGO Collateral.[82]

> The success of this transaction and potential participation is still uncertain. In an attempt to increase bondholder participation, the firm has already modified the terms of the original proposal and given investors more time to accept it. After increasing the exchange ratio, PDVSA has twice postponed the tender deadline. Meanwhile, the National Assembly has questioned the legitimacy of offering a 50% participation of CITGO as collateral.

51. On October 13, 2016, a J.P. Morgan analyst report highlighted the fact that investors faced doubt surrounding the legality of the Exchange. The report noted:[83]

> …we do not believe the National Assembly has explicit purview of PDVSA's finance operations, but the [National] Assembly has gone on record with [a] resolution rejecting the use of Citgo as collateral and calling del Pino to testify (which he has not). Moreover, from a more political perspective, jailed leader Leopoldo Lopez has warned markets that the deal could be "illegal" and reneged upon by a future opposition government. In our view, any future opposition government is likely to try to leverage market confidence rather than immediately fight a battle over onerous debt, but the warning shot has been fired nonetheless.

52. On October 27, 2016, John Salvesen, a Jefferies analyst, noted in an email that "even though [the] market [was] pricing it between 15 and 17 at the moment" the CITGO Collateral "should not be worth much" because the National Assembly had not "blessed" the transaction and thus the pledge of the CITGO Collateral was potentially illegal.[84]

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[82] Email from GS Macro Economics Research to Jan Dehn, Herbert Saller, Xin Xu, and Pablo Goldberg, "LATAM Today: October 13, 2016," dated October 13, 2016. (ASH_00000275 – 280 at 279; ASH_00001588 – 593; ASH_00002573 – 578); Email from GS Macro Economics Research to Jan Dehn, Herbert Saller, Xin Xu, and Pablo Goldberg, "LATAM Today: October 13, 2016," dated October 13, 2016. (BLA_00001162 – 167).

[83] Email from Dan Gelfand to Blackrock employees, "FW: PDVSA : Swap extended again and the clock is ticking," dated October 13, 2016 attaching email from Javier Zorrilla, Ben Ramsey, and Trang Nguyen, "PDVSA Swap Extended Again and the Clock is Ticking," *J.P. Morgan*, October 13, 2016. (BLA_00001171 – 175 at 172).

[84] Email from John Salvesen to John Salvesen, "Opening Salvo - EM - METALS, VENZ/PDVSA, ARGENT, ODBR, JBSSBZ," dated October 27, 2016. (BLA_00001623 – 628 at 624); Email from John Salvesen to John Salvesen, "Opening Salvo - EM - METALS, VENZ/PDVSA, ARGENT, ODBR, JBSSBZ," dated October 27, 2016. (ASH_00002461 – 466 at 462). *See also* Email from Javier Kulesz to Jan Dehn, Xin Xu, Herbert Saller, "Jefferies

53. Even after the new 2020 Notes were issued on October 28, 2016, market commentators and analysts continued to discuss invalidity risk of the 2020 Notes until October 28, 2019, when PDVSA failed to make a principal and interest payment of $913 million.[85] Commentary about the invalidity risk of the 2020 Notes has continued even after this missed payment.

54. On October 10, 2019, shortly before the 2020 Notes' October 28, 2019 payment deadline, Nasdaq highlighted the invalidity risk of the 2020 Notes, noting:[86]

> [T]he Guaido government could also possibly question the legality of the PDVSA 2020, arguing that the bond was ultimately not approved by the National Assembly. The bond was issued in 2016 as part of a debt swap – an attempt by the Maduro government to find some much needed cashflow relief.

55. On October 15, 2019, the National Assembly of Venezuela issued a "Resolution Repeating the Invalidity of the PDVSA 2020 Bonds," in which it confirmed that:[87]

> [T]he 2020 Bond indenture violated Article 150 of the Constitution of the Bolivarian Republic of Venezuela, since it concerned a national public contract, executed with foreign companies, which was not authorized by the National Assembly.

LatAm Sovns - Venezuela and Argentina commentary," dated October 26, 2016. (ASH_00004413 – 417 at 413 – 414; ASH_00007140 – 144; ASH_00006137 – 141); Email from Javier Kulesz to Pablo Goldberg, Sergio Trigo Paz and 25 others, "Jefferies LatAm Sovns - Venezuela and Argentina commentary," dated October 26, 2016. (BLA_00001608 – 1611; BLA_00001612 – 1616). [redacted]

[85] Arturo C. Porzecanski, "The PDVSA 2020 bond: time for a solution," *Financial Times*, November 18, 2019. (https://ftalphaville ft.com/2019/11/14/1573766503000/The-PDVSA-2020-bond--time-for-a-solution/).

[86] Miluska Berrospi, "Major PDVSA 2020 holder anticipates default on bond," *Nasdaq,* October 10, 2019. (https://www nasdaq.com/articles/major-pdvsa-2020-holder-anticipates-default-on-bond-2019-10-10). Continued political instability also affected market participant's understanding of the invalidity risk. *See* Email from Pablo Goldberg to Michel Aubenas, "Re: (BFW) Venezuela Opposition Reaches Political, Economic Accords w/Govt," dated November 13, 2016 ("Yet a key political factor here is that the government still controls the Supreme Court, which at the end is blocking some Congressional decisions, or can supersede the CNE."). (BLA_00003918 – 919).

[87] Complaint Exhibit D, "Resolutions that Reiterates the Invalidity of PDVSA's 2020 Bonds," National Assembly of the Bolivarian Republic of Venezuela, October 15, 2019. Translated by TransPerfect.

56. On November 1, 2019, after the 2020 Notes' principal and interest payment had come due, *Petroleum Economist*, a magazine that analyzes the energy industry, reported: [88]

> The opposition has always questioned the legitimacy of the bond. "The [National Assembly] claimed the Pdvsa 2020 bond was invalid as a breach of the constitution, because, in their view, the [National Assembly]'s approval of the bond was necessary, given that those bonds are a contract executed for the national interest and thus subject to such approval," says Eugenio Hernandez-Breton, partner at law firm Baker and McKenzie. "According to the [National Assembly], payment of interest on the Pdvsa 2020 bond in April 'was made under protest' and in order to save Citgo's shares from foreclosure."

57. In summary, sophisticated emerging market debt investors routinely monitor various channels of information, including market commentary and analysts reports, to assess the merits of an investment. In this case, my review confirms that extensive public press and analyst commentary about the invalidity risk related to the 2020 Notes (including official statements by the National Assembly) was available to investors from before the Exchange Offer's completion through the 2020 Notes' missed October 2019 payment. In particular, contemporaneous public market commentary highlighted the fact that the Venezuelan National Assembly had publicly rejected the purported pledge of CITGO Collateral for the 2020 Notes issued by PDVSA, [89] which at the time was controlled by Maduro's government. Therefore, it is reasonable to conclude that investors knew (or at minimum should have known) of the invalidity risk associated with the CITGO Collateral, notwithstanding the Representations to the contrary.

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[88] Charles Waine, "Bondholders Close in on CITGO," *Petroleum Economist*, November 1, 2019. (https://www.petroleum-economist.com/articles/corporate/company-profiles/2019/bondholders-close-in-on-citgo). (Bracketed text added for clarification.)

[89] The National Assembly's second resolution was: "To reject categorically that, within the swap transaction, 50.1% of the shares comprising the capital stock of Citgo Holding Inc. are offered as guarantee with priority, or that a guarantee is constituted over any other property of the Nation." *See*, Complaint Exhibit C, "Resolutions on the Current Financial Situation of Petróleos de Venezuela, S.A.," National Assembly of the Bolivarian Republic of Venezuela, September 27, 2016. Translated by TransPerfect.

C. After Missing The Payment On October 28, 2019, The 2020 Notes' Price Was Well Below The Estimated Value Of The CITGO Collateral, Which Is Consistent With Investors Factoring In The Invalidity Risk Associated With The CITGO Collateral Pledge

58. To examine if the 2020 Notes traded in a manner that is consistent with investors incorporating the invalidity risk associated with the CITGO Collateral into their valuation of the 2020 Notes, I compared the estimated value of 50.1% of CITGO Holding's equity, (CITGO Collateral) to the 2020 Notes' aggregate market value ("2020 Notes' Value" [90]) on October 28, 2019, when PDVSA missed a $913 million payment on the 2020 Notes, which, as a *Bloomberg* article noted, the 2020 Notes had until then been "the nation's only bonds not in default."[91]

59. Economic reasoning suggests that, absent any invalidity risk, if the CITGO Collateral was unencumbered, then the Notes' Value would equal the CITGO Collateral's estimated value once the 2020 Notes had missed payments. However, that was not the case. After the 2020 Notes missed payments on October 28, 2019, they were priced well below the estimated value of the CITGO Collateral, which is consistent with investors factoring in the invalidity risk associated with the CITGO Collateral after a missed payment on the 2020 Notes.

[90] Bond *prices* are typically quoted as percentage of "par" or outstanding principal. A bond that trades at a price of 100 (or 100% of its outstanding principal) is said to trade at "par". A bond that trades at a price of less or more than 100 is said to trade at a "discount" or at a "premium," respectively. (*See* R.A. Brealey, S.C. Myers, F. Allen, *Principles of Corporate Finance,* 12th Edition, McGraw Hill, (2017), p. 48). The 2020 Notes' *Value* is calculated as: the 2020 Notes price (which is reported as a percentage of principal) multiplied by the 2020 Notes' outstanding principal at the time.

[91] "Venezuela Defaults on Its Last Bond, Setting up Legal Showdown," *Bloomberg News*, October 28, 2019. (https://www.bloomberg.com/news/articles/2019-10-28/venezuela-defaults-on-its-last-bond-setting-up-legal-showdown).

60. The price of the 2020 Notes was 32.492 on October 28, 2019 after the Notes had defaulted. Correspondingly, the 2020 Notes' Value that day was \$0.55 billion.[92] In contrast, according to a July 2019 valuation by Fitch, the CITGO Collateral was estimated to be worth \$1.34 billion. (See **Exhibit 1** for details). Thus, the post-default 2020 Notes' Value was equal to only 41% of the estimated value of the CITGO Collateral.[93] This finding is consistent with investors factoring in significant invalidity risk related to the CITGO Collateral.

61. Arguably, the 2020 Notes' low price could also be due to U.S. sanctions that prevented investors from claiming the CITGO Collateral in the event of the 2020 Notes' default,[94] rather than the invalidity risk associated with purported pledge of the CITGO Collateral by PDVSA. However, as I explain below, my review of the economic evidence indicates that the deep discount in the 2020 Notes' Value on October 28, 2019 (relative to the estimated value of the CITGO Collateral) is consistent with the invalidity risk associated with the CITGO Collateral rather than the effect of US sanctions.

[92] The 2020 Notes outstanding principal equaled \$1.68 billion at default. Hence, the 2020 Notes' value on October 28, 2019 equals 32.492% of \$1.68 billion, or \$0.55 billion.

[93] This recovery rate of 41% is calculated as 2020 Notes' Value on October 28, 2019 divided by the estimated CITGO Collateral value, *i.e.,* \$0.55 billion/\$1.34 billion.

[94] On July 21, 2017, a Senior White House official said the United States was considering sanctions that would halt USD payments for Venezuela's oil. (*See* Marianna Parraga and Matt Spetalnick, "Exclusive: U.S. weighs financial sanctions to hit Venezuela's oil revenue," *Reuters*, July 21, 2017. (https://de.reuters.com/article/uk-venezuela-sanctions-exclusive/exclusive-u-s-weighs-financial-sanctions-to-hit-venezuelas-oil-revenue-sources-idUKKBN1A7017)). Thereafter, President Trump issued several Executive Orders that imposed further sanctions on Venezuela, viz., E.O. 13835: "Prohibiting Certain Additional Transactions with Respect to Venezuela," May 21, 2018. (https://www.treasury.gov/resource-center/sanctions/Programs/Documents/venezuela_eo_13835.pdf); E.O. 13857: "Taking Additional Steps to Address the National Emergency With Respect to Venezuela," January 25, 2019 (https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13857.pdf); and E.O. 13884 "Blocking Property of the Government of Venezuela," August 5, 2019 (https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13884.pdf).

62. The U.S. Office of Foreign Assets Control's ("OFAC") issued General License 5 ("GL5") on July 19, 2018.[95] GL5 superseded Executive Order 13835 with respect to the CITGO Collateral and restored the 2020 Noteholders' ability to claim CITGO Holding's equity as collateral if the 2020 Notes defaulted. Economic reasoning suggests that if prior U.S. sanctions preventing investors from claiming CITGO equity as collateral had negatively impacted the 2020 Notes' Value, then the removal of such sanctions would have a positive effect on the 2020 Notes' price. However, that was not the case. After GL5 was issued, the 2020 Notes' price remained relatively stable and its trading volume did not significantly increase.[96] This suggests that the deep discount in the post-default 2020 Notes' Value (relative to the estimated value of the CITGO Collateral) is consistent with the invalidity risk associated with the CITGO Collateral rather than the imposition (or removal) of U.S. sanctions specifically related to 2020 Noteholders' ability to claim CITGO equity as collateral.

D. The Recovery Rating Assigned By Fitch To The 2020 Notes Is Also Consistent With The 2020 Notes Having Significant Invalidity Risk

63. For debt securities with an Issuer Default Rating (IDR) of B+ or below, "where default is closer and recovery prospects are more meaningful to investors, Fitch undertakes a 'tailored', or bespoke, analysis of recovery upon default for each issuance. The resulting debt instrument rating includes a Recovery Rating, or published 'RR' (graded from 'RR1'

[95] "General License No. 5 Authorizing Certain Transactions Related to the Petroleos de Venezuela SA 2020 8.5 Percent Bond," Department of the Treasury Office of Foreign Assets Control, July 19, 2018. (https://www.treasury.gov/resource-center/sanctions/Programs/Documents/venezuela_gl5.pdf).

[96] The 2020 Notes' price was 86.235, 86.23, 85.989, 85.857, 85.963, 86.281, and 86.788 on the 7 consecutive trading days centered on July 19, 2018 (i.e., July 19, 2018 plus and minus 3 trading dates on each side). FINRA TRACE trading volume in dollars over the same 7 days were $1,724,700, $6,026,610, $5,159,340, $2,361,070, $4,684,890, $6,310,590, and $292,480. (Data are from Bloomberg L.P.)

to 'RR6')."[97] Fitch's recovery rating scale is based on "the expected relative recovery characteristics of an obligation upon the curing of a default, emergence from insolvency or following the liquidation or termination of the obligor or its associated collateral."[98]

64. Historically, debt securities with an RR1 rating have recovered 91%-100% of current principal and related interest upon default, while securities with lower recovery ratings have realized lower recovery rates historically. For example, Fitch notes that RR4, RR5 and RR6-rated securities have "characteristics consistent with securities historically recovering" 31%-50%, 11%-30% and 0%-10% of current principal and related interest, respectively.[99]

65. On October 25, 2016, Fitch downgraded PDVSA's senior unsecured debt as well as the secured 2020 Notes, and assigned both these types of PDVSA debt the same recovery rating of 4 (*i.e.,* RR4), for which the estimated recovery rate range was 31% to 50%.[100] In its press release about this downgrade, Fitch stated that: [101]

> PDVSA's 'CC' rating suggests that default of some kind appears probable. If a default or restructuring occurs, Fitch anticipates average recovery for PDVSA's bondholders of 31%-50%, and likely closer to the lower end of the range. … The proposed senior secured notes have also been assigned an 'RR4' average Recovery Rating as the collateral provided may only

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[97] "Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers," *Fitch Ratings*, December 7, 2015, p. 1. (https://www-origin.fitchratings.com/site/re/873504).

[98] Fitch further notes that among "the factors that affect recovery rates for securities are the collateral, the seniority relative to other obligations in the capital structure (where appropriate), and the expected value of the company or underlying collateral in distress." (*See* "Rating Definitions," *Fitch Ratings*, p. 24. (https://www fitchratings.com/site/dam/jcr:6b03c4cd-611d-47ec-b8f1-183c01b51b08/Rating).)

[99] "Rating Definitions," *Fitch Ratings,* p. 24. (https://www.fitchratings.com/site/dam/jcr:6b03c4cd-611d-47ec-b8f1-183c01b51b08/Rating).

[100] Fitch downgraded PDVSA's senior unsecured debt outstanding to 'CC/RR4' from 'CCC/RR4' and also downgraded the expected rating of the 2020 Notes to 'CC(EXP)/RR4' from 'CCC(EXP)/RR4' (*See* "Fitch Downgrades PDVSA's IDRs to 'CC'," *Fitch press release*, October 25, 2016). (https://www fitchratings.com/site/pr/1013724).

[101] "Fitch Downgrades PDVSA's IDRs to 'CC'," *Fitch press release*, October 25, 2016. (https://www fitchratings.com/site/pr/1013724).

marginally enhance recovery given default, which could still range between 31% and 50%.

66. That is, despite the purported pledge of CITGO Collateral to the 2020 Notes, Fitch concluded that 2020 Notes' recovery of outstanding claims would only be "marginally" higher. According to Fitch, the 2020 Notes would *at most* recover 50% of their outstanding claims upon default (the upper bound of the recovery range for RR4-rated debt), while PDVSA's unsecured notes would recover *at least* 31% of their outstanding claims upon default (the lower bound of the recovery range for RR4-rated debt). Therefore, using Fitch's assigned RR4 range, the 19% difference between these two recovery rates represents the maximum incremental recovery rate that was attributable to the 2020 Notes' CITGO Collateral ("maximum incremental recovery rate") according to Fitch's ratings. Thus, Fitch's recovery ratings suggest that no more than 19% of the 2020 Notes outstanding claims could *incrementally* be expected to be recovered given the CITGO Collateral relative to the recovery that Fitch estimated PDVSA's unsecured bonds would realize upon default.

67. At issuance, the 2020 Notes' outstanding principal equaled $3.37 billion.[102] Thus, Fitch's ratings analysis suggests that no more than 19% of that sum (or $0.64 billion) could be incrementally recovered because of the CITGO Collateral purportedly pledged to the 2020 Notes. In contrast, the estimated value of the CITGO Collateral was significantly higher. For example, in the 2020 Notes Offering Circular, PDVSA reported that CITGO Holding's

[102] "PDVSA Announces Settlement of the Exchange Offers of its Outstanding 5.250% Senior Notes due 2017 and 8.50% Senior Notes due 2017 for New 8.50% Senior Secured Notes due 2020," *PR Newswire*, October 28, 2016. (https://www.prnewswire.com/news-releases/pdvsa-announces-settlement-of-the-exchange-offers-of-its-outstanding-5250-senior-notes-due-2017-and-850-senior-notes-due-2017-for-new-850-senior-secured-notes-due-2020-300353519.html).

equity was valued at $8.3 billion as of December 31, 2015,[103] which would imply that value of CITGO Collateral (which equals 50.1% of CITGO Holding's equity) was $4.16 billion.[104] According to contemporaneous analyst reports, the CITGO Collateral was worth at least $1.8 billion.[105] Thus, at the time of the Exchange, Fitch's estimate of the incremental recovery due to the CITGO Collateral was significantly less than the value of the CITGO Collateral, which is consistent with Fitch factoring into its assessment that the 2020 Notes' recovery of CITGO Collateral would be limited due to invalidity risk.[106]

68. Similarly, according to Fitch's July 16, 2019 report, CITGO Holding Co.'s going concern value less its subsidiary's (CITGO Petroleum) outstanding debt was $4.55 billion.[107] Thus, CITGO Holding's equity value was then valued at $2.68 billion, as the company had

[103] 2020 Notes Offering Circular, p. 8.

[104] 2020 Notes Offering Circular, p. 7.

[105] Contemporaneous analyst reports by Barclays, Torino Capital, BancTrust and JPMorgan estimated the value of CITGO Collateral to be between $1.8 billion - $2.7 billion. (*See* Alejandro Arreaza and Sebastian Vargas, "PDVSA/Venezuela Swap Marathon," Barclays, September 15, 2016 (ASH_00005978 – 979); Christine Jenkins, "Bond Traders Aren't Buying PDVSA's $8.3 Billion Citgo Valuation," Bloomberg, September 20, 2016; Javier Zorilla, "Waiting on the World to (Ex)change," J.P. Morgan, September 22, 2016 (ASH_00000173 – 197); Nathan Crooks, "Citgo's Net Value Could Range From 4.26B to 5.38B: BancTrust," Bloomberg, September 21, 2016). JPMorgan provided the lowest estimate across these reports, valuing the CITGO Collateral at $1.8 billon.

[106] Fitch assigned its RR rating of 4 to PDVSA's unsecured notes and the 2020 Notes before the U.S. Executive Order 13835 with respect to the CITGO Collateral had been issued on May 24, 2018 (Executive Order 13835 of May 21, 2018, "Prohibiting Certain Additional Transactions With Respect to Venezuela." (https://www.treasury.gov/resource-center/sanctions/Programs/Documents/venezuela_eo_13835.pdf).) Hence, my conclusion that the recovery due to CITGO Collateral was less than the value of the CITGO Collateral, cannot be attributed to restrictions imposed by the U.S..

[107] Fitch estimated CITGO Petroleum's "residual value" (net of the subsidiary's debt) to be "approximately $3.3 billion." Fitch calculated the parent entity's (CITGO Holding's) going concern value as equal to the residual value of its subsidiary ($3.3 billion) plus CITGO Holding's "midstream assets" ($400 million), and cash ($186 million). This totals $3.9 billion. However, this sum is net of $0.65 billion of administrative claims (which Fitch calculated as 10% of CITGO Petroleum's $6.5 billion enterprise value). I add back this $0.65 billion of estimated administrative claims to the afore-mentioned sum of $3.9 billion because I am valuing CITGO Holding on a going concern basis, not on a liquidation basis as Fitch has done. The resulting sum, $4.55 billion (calculated as $3.9 billion plus $0.65 billion), is the parent's, CITGO Holding, value as a going concern less its subsidiary's debt, as I noted in the body of my report above. (*See* "Fitch Assigns 'B+'/'RR1' Expected Rating to CITGO Holdco Issuances; Upgrades Holdco IDR to 'CCC+'," *Fitch Ratings*, July 16, 2019. (https://www.fitchratings.com/site/pr/10082351).)

outstanding debt of $1.87 billion.[108] Hence, based on Fitch's valuation of CITGO Holding, the value of the CITGO Collateral (which was 50.1% of CITGO Holding's equity) was at $1.34 billion as of July 16, 2019, shortly before the 2020 Notes missed the October 2019 payment.[109] At the time, the 2020 Notes' recovery rating remained at RR4, but PDVSA's unsecured notes' recovery rating had been downgraded to RR5,[110] *i.e.,* PDVSA's unsecured notes then had an estimated recovery range of 11%-30%.[111] Thus, by July 16, 2019 Fitch's ratings indicate that the maximum incremental recovery that Fitch could have attributed to the 2020 Notes' CITGO Collateral was 39%.[112] At the time, the 2020 Notes' outstanding principal and accrued interest equaled $1.72 billion. Hence, the maximum additional recovery attributable to the CITGO Collateral as of July 16, 2019, would be 39% of $1.72 billion, or $0.67 billion,[113] according to Fitch's ratings which was about half of the CITGO Collateral's unencumbered value ($1.34 billion) based on Fitch's valuation of CITGO. This result is consistent with Fitch having factored in the invalidity risk at the time of issuance of the 2020 Notes.

69. Finally, it is worth noting that the 2020 Notes' price after the missed October 2019 payment (32.492) indicates that investors expected to recover approximately 33% of the 2020 Notes'

[108] Source: Bloomberg L.P. *See* Exhibit 1 for details.

[109] This sum is calculated as 50.1% of CITGO Holdings' equity ($2.68 billion).

[110] "Fitch Affirms PDVSA's IDRs at 'RD'," *Fitch Press Release*, November 12, 2018. (https://www fitchratings.com/site/pr/10051733).

[111] "Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers," *Fitch Ratings: Corporates*, December 7, 2015. (https://www-origin.fitchratings.com/site/re/873504).

[112] This maximum incremental recovery rate due to the CITGO Collateral is calculated as the difference between the maximum recovery for debt rated RR4 (50%) and the minimum expected recovery for RR5 debt (11%).

[113] $0.67 billion is equal to 39% of $1.72 billion.

outstanding principal which was near the lower bound of the recovery rate range of 31%-50% estimated by Fitch for the 2020 Notes.

IV. PDVSA WAS NOT ENRICHED BY THE EXCHANGE

70. In a typical "sovereign" debt restructuring (*i.e.,* restructuring of debt issued by a sovereign state or a SOE), the issuer exchanges some of its existing debt for new debt with terms that provide the issuer some debt relief, for example, a reduction of face value, reduction of coupon interest rate, or a significant maturity extension.[114,115] Although issuers do offer

[114] Das et al. (2012) at p.7 note that "Debt rescheduling, which *can* be defined as a lengthening of maturities of the old debt, possibly involving lower interest rates. Debt rescheduling imply debt relief, as they shift contractual payments into the future; and Debt reduction, which can be defined as a reduction in the face (nominal) value of the old instruments (e.g., from US$ 100 to US$ 80)." Das et al. (2012) at p. 12 further note that "The key purpose of the debt renegotiations is to agree on the terms of a debt exchange that will **provide some form of debt relief and solve the distress situation**." [Emphasis added.]

[115] As I noted earlier, institutional investors such as myself and academic studies such as Das et al. (2012) consider the restructuring of debt issued by sovereign governments and SOEs to be similar because the financial condition and credit quality of a state-owned enterprise is usually closely linked to that of its owner, *i.e.,* the state. For instance, in PDVSA's case:

- Fitch stated: "PDVSA's credit quality **reflects the company's linkage** to the government of Venezuela as a state-owned entity" (emphasis added). (*See* "Fitch Downgrades PDVSA's IDRs to 'CCC'," *Business Wire*, December 19, 2014. (https://www.businesswire.com/news/home/20141219005906/en/Fitch-Downgrades-PDVSAs-IDRs-CCC).)
- Moody's also noted that "PDVSA's ratings **reflect the inextricable relationship** between PDVSA and the Government of Venezuela" (emphasis added). (*See*, "Rating Action: Moody's assigns Caa3 rating to PDVSA's 2020 notes," *Moody's Investors Service*, November 18, 2016. (https://www.moodys.com/research/Moodys-assigns-Caa3-rating-to-PDVSAs-2020-notes--PR_358253).)
- The investment bank, JP Morgan, included PDVSA in its EMBI Global Diversified index, a well-known index of *sovereign* debt. (*See*, "JPMorgan stays with Venezuela in emerging bond indexes - fund managers," *Reuters*, February 28, 2019. (https://www reuters.com/article/venezuela-pdvsa-index/jpmorgan-stays-with-venezuela-in-emerging-bond-indexes-fund-managers-idUSL3N20O0RQ).)
- [redacted]
- As a *Financial Times* article on September 26, 2016 noted, "Although the government does not guarantee PDVSA's debts, some lawyers say that in practice it would be hard to disentangle a full default and

"sweeteners" to "generate incentives for participation,"[116] the terms offered by PDVSA to induce 2017 Noteholders to tender their notes in the Exchange were unusually favorable for investors in my experience. [redacted]

71. For example, PDVSA offered investors who tendered their 2017 Notes more in face value on the 2020 Notes than the remaining face value of the exchanged 2017 Notes (a face value "*premium*")[120] rather than requiring them to accept a face value *haircut* as in the typical restructuring in my experience.

restructuring of the oil company from its parent, the state." (Email from Russ Dalen, "FT: Venezuelan oil major's debt swap - the beginning of the end?" dated September 26, 2016. (ASH_00002429 – 432)).

- Furthermore, in the case of "sovereigns and quasi-sovereigns such as PDVSA, there is normally no formal process to address and resolve [bankruptcy-related] issues." These bankruptcy-related issues that are typically addressed in corporate-debt settings are not available to creditors of sovereign debt and SOE debt. (See Mark A. Walker and Richard J. Cooper, "Venezuela's Restructuring: A Realistic Framework," September 19, 2017, CON_00002380) In my experience, these commonalities with respect to bankruptcy-related issues meant that PDVSA's debt was generally considered by investors to have more in common with Venezuelan sovereign debt that to non-state-owned corporate-debt.

[116] Das et al (2012), p. 22. [redacted]

[117] [redacted]

[118] [redacted]

[119] [redacted]

[120] Per the Exchange: April 2017 Notes with outstanding principal of $942.103 million was exchanged for 2020 Notes with outstanding principal of $1.102 billion (given the exchange ratio of 1.17) and November 2017 Notes with

72. My experience in this regard is consistent with academic research on the subject. For example, an IMF study by Das et al (2012) documented that investors received *less in principal* in an exchange in 11 of 19 sovereign restructurings over the 1998-2010 period. In the remaining 8 cases, investors received the same principal in exchange.[121] The dataset used for the IMF study was updated in 2014, and includes four more restructurings that occurred over the 2011-2014 period, *viz.,* debt restructurings of St. Kitts and Nevis in 2012, Greece in 2012, Cote d'Ivoire in 2012, and Belize in 2013. In each of the four cases, the restructuring resulted in a reduction in the debt's face value, ranging from 3.8% to 53.5%. The average reduction in face value was 25% in these additional four cases.[122]

73. Das et al. (2012) also highlight two debt restructurings of SOEs *viz.* the 2009 debt restructurings by Dubai World and Ukraine's Naftogaz. In neither of these cases did investors receive a face value premium as was offered to 2017 Noteholders who tendered their Notes in the PDVSA Exchange.[123]

(remaining) outstanding principal of $1.86 billion was exchanged for 2020 Notes with outstanding principal of $ 2.27 billion (given the exchange ratio of 1.22). *See*, "PDVSA Announces Expiration and Final Results for its Offers to "Exchange its Outstanding 5.250% Senior Notes due 2017 and 8.50% Senior Notes due 2017 for New 8.50% Senior Secured Notes due 2020," *PDVSA Press Release*, October 24, 2016. (http://www.pdvsa.com/templates/pdvsa/img/bonos/bonopdvsa2017/Final%20announcements%20(PDF).PDF) ("PDVSA October 24, 2016 Press Release"). (*See also,* Petróleos de Venezuela, S.A., Offers to Exchange Supplement to Offering Circular, dated September 26, 2016, p. 2.)

[121] See Table 5, Das et al. (2012). In all but 2 of these 8 cases, the restructurings were done preemptively rather than post-default.

[122] In contrast, in the case of PDVSA's preemptive restructuring through the Exchange, investors were promised 17% or 22% more in principal. See Juan Cruces and Christoph Trebesch, "2014 update building on AEJ Macro 2013 paper 'Sovereign Defaults: The Price of Haircuts,'" (https://sites.google.com/site/christophtrebesch/data).

[123] In the case of Dubai World, investors received the outstanding face value on their new debt as was outstanding on the existing debt they tendered for the exchange. (See Das et al (2012), pp. 56 – 57 and "United Arab Emirates: 2011 Article IV Consultation—Staff Report," IMF, April 5, 2011, p. 8 ("IMF UAE Report"). (https://www.imf.org/external/pubs/ft/scr/2011/cr11111.pdf).). In Naftogaz's case, investors who tendered their existing bonds for exchange by the early tender deadline would get new bonds with the same outstanding face value, and would have to accept a 5% haircut if they delayed their tender. (*See* Sudip Roy, "Ukraine: Naftogaz set for success on restructuring," *Euromoney,* October 06, 2009. (https://www.euromoney.com/article/b1322p5tnkb1cj/ukraine-naftogaz-set-for-success-on-restructuring).)

74. Similarly, a February 2020 Ashmore Group research report noted that, according to a research paper by Professors Reinhart, Meyer and Trebesch, investors had received a negative face value haircut (or a face value premium, as in the PDVSA Exchange) in only one out of 313 sovereign debt restructurings that took place between 1815 and 2016.[124]

75. Further, as Das et al (2012) note, debt restructuring can be "defined as a lengthening of maturities of the old debt, possibly involving **lower interest rates.** Debt reschedulings imply debt relief, as they shift contractual payments into the future." (emphasis added)[125] A recent study by the European Central Bank found that in more than half of the 23 restructuring cases from 1994-2015 studied, the coupon rate was reduced in the exchange.[126] In contrast, in PDVSA's case, investors who tendered April 2017 Notes in the Exchange received higher coupon interest on the 2020 Notes.[127]

76. In my experience, most sovereign debt restructurings also involve a maturity extension which provides the issuer some debt relief, in the form of lowering near-term interest and

[124] See footnote of Figure 5 in Gustavo Medeiros, "Quantifying EM sovereign fair value," *Ashmore Investment Management Limited*, February 2020. (http://www.ashmoregroup.com/sites/default/files/article-docs/EMV-Quantifying-EM-sovereign-fair-value.pdf).

[125] Das et al (2012), p. 7.

[126] This study analyzed 23 sovereign restructurings from 1994 to 2015 and identified the coupon rate that was available after the exchange in 22 of these cases. Of these 22 cases, the study found that the coupon rate was reduced in 12 and remained unchanged in two cases. Moreover, like Das et al (2012)'s earlier study, this paper also documents that most restructurings entailed a face value haircut which ranged from 0 to 65%. Of the 23 restructurings the paper studies, it found no instance in which investors got a face value premium and 8 instances where the haircut was zero. (*See* Chuck Fang, Julian Schumacher, and Christoph Trebesch, "Restructuring sovereign bonds: holdouts, haircuts and the effectiveness of CACs," *European Central Bank Working Paper Series No 2366*, January 2020, pp. 15 and 43. https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2366~5317a382b3.en.pdf).

[127] The coupon rate on the April 2017 Notes was 5.25% and the 2020 Notes offered a coupon rate of 8.5%. (2020 Notes Offering Circular.) *See also* Email from Javier Kulesz to Jan Dehn, Herbert Saller, Xin Xu, "Jefferies LatAm Sovns – PDVSA's swap and Argentina's Euro bond deal," dated October 5, 2016 ("The swap in and of itself does nothing to improve PDVSA's creditworthiness. If anything, it worsens it. . . . Put in slightly different terms debt stocks and flows post swap will be worse given exchange ratios and higher coupon rates in the PDVSA17o."). (ASH_00004270 – 274; ASH_00006035 – 039; ASH_00006922 – 926); Email from Javier Kulesz to Pablo Goldberg and Sergio Trigo Paz, "Jefferies LatAm Sovns – PDVSA's swap and Argentina's Euro bond deal," dated October 5, 2016. (BLA_00001075 – 079; BLA_00003275 – 279).

principal payments and shifting such payments further into the future. A recent study on the subject has also documented that the average maturity extension in a sovereign debt restructuring is 11.6 years.[128] The restructurings of the two SOEs that Das et al (2012) highlight (Dubai World and Naftogaz) also entailed maturity extensions of five or more years.[129] In contrast, PDVSA only obtained a (weighted average) maturity extension of 1.67 years[130] through the Exchange, which is relatively short.

77. Thus, my review of the terms of the PDVSA Exchange relative to other sovereign and SOE debt exchanges suggests that PDVSA was not enriched through the Exchange. PDVSA agreed to new contractual terms that provided PDVSA only a relatively short maturity extension on its debt repayment but required it to make significantly greater payments on the 2020 Notes. The Exchange allowed PDVSA to avoid making payments totaling $2.982 billion through November 2017 on 2017 Notes,[131] but committed PDVSA to paying 40%

[128] A working paper by Professor Gabriel Mihalachie estimates that across 23 sovereign restructurings from 1994 to 2015 the weighted-average maturity extension was 11.6 years. *See*, Gabriel Mihalachie, "Sovereign Default Resolution Through Maturity Extension," *Stony Brook University Working Paper,* January 30, 2019, p. 8.

[129] The maturity extension was 5-8 years in Dubai World's case, and 5 years in the case of Naftogaz's case (*See* Das et al (2012), pp. 56 – 57).

[130] The maturity extension is calculated as the (weighted) average maturity of the 2020 Notes (2.5 years) less the (weighted) average remaining maturity of the tendered 2017 Notes (0.83 years).

The weighted average maturity of the 2020 Notes is calculated by weighting each remaining year of the bond's life by the face value amount repaid that year:

$$2.5 \text{ years} = \frac{(\$841{,}882{,}250 \times 1)+(\$841{,}882{,}250\times 2)+(\$841{,}882{,}250\times 3)+ (\$841{,}882{,}250\times 4)}{\$3{,}367{,}529{,}000}$$

The average remaining maturity of the tendered 2017 notes is calculated in an analogous manner as follows:

$$0.83 \text{ years} = \frac{(\$942{,}103{,}000\times 0.45)+(\$\ 1{,}857{,}169{,}267 \times 1.01)}{(\$942{,}103{,}000 + \$\ 1{,}857{,}169{,}267\ )}$$

[131] This sum is calculated as: $0.967 billion for the exchanged April 2017 Notes (see Exhibit 2A) *plus* $2.015 billion for the exchanged November 2017 Notes (see Exhibit 2B).

more (*i.e.,* $4.163 billion) in interest and principal on the 2020 Notes through October 2020.[132]

78. Contemporaneous analyst commentary regarding the Exchange Offer is consistent with my opinion. Analysts opined that PDVSA obtained only a modest, short-term debt relief but in exchange had to commit to significantly greater principal and interest payments through 2020.

79. An October 5, 2016, email from Jefferies analyst, Javier Kulesz, to Ashmore Group's head of research, Jan Dehn, highlights:[133]

> 1) The swap in and of itself does nothing to improve PDVSA's creditworthiness. If anything, it worsens it. …debt stocks and flows post swap will be worse given exchange ratios and higher coupon rates in the PDVSA17o. The irony is that the greater the participation rate, the more successful the swap, but the worse the deterioration in PDVSA's solvency metrics.
>
> 2) The swap provides some cash flow relief as the late October/early November amortization hump becomes less humpy. But this cash flow relief is at the expense of a buildup of a new amortization hump not that far into the future.

80. Another email from Javier Kulesz to Jan Dehn on October 24, 2016, further stated that PDVSA only obtained a limited short-term debt relief at the expense of significantly greater contractual payments it was required to make in the future.[134]

> 1. … With this swap, the risk of a default around this corner would decrease but at the expense of an increase of the risk of a default around the next corner.

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[132] This sum is calculated as the sum of $1.339 billion for the exchanged April 2017 Notes (see Exhibit 2A) and $2.824 billion for the exchanged November 2017 Notes (see Exhibit 2B).

[133] Email from Javier Kulesz to Jan Dehn, "Jefferies LatAm Sovns – PDVSA's swap and Argentina's Euro bond deal," dated October 5, 2016. (ASH_00004270 – 274 at 271).

[134] Email from Javier Kulesz to Jan Dehn, "Jefferies LatAm Sovns - Venezuela and Argentina commentary," dated October 24, 2016. (ASH_00000392 – 396 at 392).

> 2. The cash flow relief is not that significant. They are not shifting a big chunk of upcoming amortizations that far down the road. … This relief comes at the expense of deteriorating debt stocks and flows. Under these assumptions, PDVSA's debt would increases [*sic*] by about US$0.5 billion and the interests by US$25 million per year and a lot more if we factor in the many billions of dollars of notes PDVSA is issuing to pay suppliers (the note's first amortization payment would be in early 2018).

81. An October 25, 2016, email from Victor Fu, Director of EM Sovereign Desk Strategy at Stifel Nicolaus & Co Inc at the time, to Jan Dehn calculated that:[135]

> Therefore, the debt swap is essentially trading off a $1.8bn short-term debt reduction for around $3bn of new debt burden during the three years after 2017.

82. On October 28, 2016, Dan Gelfand, a Vice President at BlackRock, forwarded a Goldman Sachs research report to numerous BlackRock employees that noted that the Exchange ultimately increased PDVSA's debt obligations.[136]

> During the past few days, there have been significant developments related to both risks. On the one hand, Venezuelan state oil company PDVSA was able to exchange some of its bonds maturing in 2017, reducing the probability of an imminent default but at the cost of worsening the company's external debt profile as early as in 2018. …
>
> The completion of the swap is mildly positive news for the PDVSA credit. While it effectively reduced short-term payment risk, it also resulted in a prompt deterioration of its external payment profile. PDVSA's external bond payments were reduced by $0.98bn through the end of the current year, … [and] $0.88bn during 2017 [i.e., total savings of $1.86bn] …. [But], the company will see its external bond service increasing by a total of $2.96bn in the 2018-2020 period as a result of both higher principal and interest payments.
>
> Under these conditions, payment risk will remain elevated during 2017. The swap provides a temporary relief for incoming payments, but it does

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[135] Email from Victor Fu to Jan Dehn, "Stifel EM (V.Fu): PdVSA: cautious on the front-end rally on a co," dated October 25, 2016. (ASH_00004359 – 361 at 359 – 360).

[136] Email from Dan Gelfand to BlackRock employees, "FW: Venezuela: Political Risk Outweighs Fleeting Payment Relief" dated October 28, 2016 attaching "Latin America Economics Analyst: Venezuela: Political Risk Outweighs Fleeting Payment Relief," *Goldman Sachs Economic Research*, dated October 28, 2016. (BLA_00001683 – 696 at 683 – 690). (Bracketed text added for clarification.)

> little to address liquidity concerns for the whole 2017. …The crucial payment period has just been postponed by a few months.
>
> The temporary relief in PDVSA external debt payments becomes even less relevant when considering total external debt payments faced by both Venezuela and PDVSA After all, PDVSA remains the central government's main source of foreign currency and, as we have explained before (see "Venezuela: Maintaining an Unsustainable Course," March 6, 2015), both the sovereign and PDVSA's credit risks are highly correlated.

83. Further, according to the IMF study by Das et al. (2012), participation rates in sovereign restructurings typically range from 72% to 100%.[137] However, despite investors being offered unusually favorable terms in the PDVSA Exchange Offer, only 39% of the 2017 Notes' outstanding principal was ultimately tendered in the Exchange.[138] Investors' tepid response to the Exchange Offer, despite the favorable terms, is consistent with the finding that investors had factored in invalidity risk associated with the CITGO Collateral.[139]

[137] See Table 4 of Das et al. (2012). Even if I consider only sovereign restructurings that were done preemptively that are listed in the Das et al (2012) study, (as was the case with PDVSA), participation rates in restructuring are similarly high.

[138] This fraction of 39% is calculated as the aggregate 2017 Notes principal tendered in the Exchange ($2,799,272,267) divided by the aggregate 2017 Notes outstanding principal ($7.1 billion, which comprised of $3 billion of April 2017 Notes' principal and $4.1 billion of November 2017 Notes' principal). $942.103 million of the April 2017 Notes' principal and $1.857 billion of the November 2017 Notes' principal was tendered and accepted in the Exchange. Thus, 31.4% of the April 2017 Notes outstanding principal and 45.3% of the November 2017 Notes outstanding principal was tendered and accepted in the Exchange. (*See* PDVSA October 24, 2016 Press Release)

[139] Analyst commentary also supports my conclusion that the low participation in the Exchange is consistent with the finding that investors had factored in invalidity risk associated with the CITGO Collateral. For example, Nomura analysts said "The make or break of the exchange is the assessment of the equity valuation and the legal risks." (Email from Siobhan Morden to Patrick Haller, Michel Aubenas, Pablo Goldberg and 27 others, "Venezuela | PdVSA exchange," *Nomura*, September 18, 2016. (BLA_00000556 – 558 at 556.)) Similarly, in an email to Ashmore Group, Jefferies analyst, Javier Kulesz, said that "participation will be rather low" in part because of the opposition's challenge to "the use of Citgo equity to back this deal on legal grounds." (Email from Javier Kulesz to Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 27 others, "Jeffries LatAm Sovns – The PDVSA swap," dated September 19, 2016. (ASH_00004192 – 194 at 192; ASH_00005982 – 984 at 982 – 983; ASH_00006721 – 723 at 721 – 722); Email from Javier Kulesz to Pablo Goldberg, Sergio Trigo Paz and 27 others, "Jeffries LatAm Sovns – The PDVSA swap," dated September 19, 2016. (BLA_00000640 – 642 at 640 – 641; BLA_00000643 – 645 at 643 - 644).)

V. EXCHANGING INVESTORS WHO PURCHASED AT ISSUANCE OR DURING THE TENDER OFFER WINDOW HAVE NOT LOST MONEY THROUGH THE EXCHANGE

84. In this section, I conduct two analyses related to "Exchanging Investors," (*i.e.,* investors who exchanged either April 2017 Notes or November 2017 Notes for 2020 Notes and held those 2020 Notes through "today").[140] In both analyses, I compare the *total value* that Exchanging Investors received from their investment (*i.e.,* cash flows of coupon and principal payments through today[141] as well as the value of the 2020 Notes they continued to hold as of today) to their *cost* of buying the 2017 Notes they tendered in the Exchange ("Investment Cost").

85. The result of this analysis depends on when the Exchanging Investors are assumed to have purchased the 2017 Notes they tendered in the Exchange (the "Purchase Date"). For illustrative purposes, I consider two alternative sets of Purchase Dates: (i) the 2017 Notes' *issuance dates*,[142] or alternatively, (ii) the Exchange's *tender offer window* (*i.e.,* September 16, 2016 – October 21, 2016).[143] In both analyses, I conclude that Exchanging Investors

[140] I refer to Exchanging Investors who exchanged April 2017 Notes and November 2017 Notes for 2020 Notes as the "Exchanging April 2017 Investors" and "Exchanging November 2017 Investors", respectively. As of the time that this report was prepared, the last available pricing data on the 2020 Notes was as of March 13, 2020. Thus, I use the shorthand "today" to refer to this date of the last available data for purposes of my analysis. To the extent that my conclusions are affected by additional pricing information that becomes available at a later date, I reserve the right to update my analysis.

[141] Such coupon and principal cash flows comprises of cash flows from: (i) the 2017 Notes from the date they purchased the 2017 Notes ("Purchase Date") through the Exchange; and (ii) the 2020 Notes they got in the Exchange from the Exchange Date through today (I refer to (i) and (ii) collectively as "Cash Flows through Today")

[142] The 2017 Notes' issuance dates are as follows: April 12, 2007 for the April 2017 Notes, and October 29, 2010 or January 18, 2011 for the November 2017 Notes. *See* Petróleos de Venezuela, S.A. Prospectus dated December 4, 2007, p. 1. Petróleos de Venezuela, S.A. Listing Particulars dated March 17, 2011, p. 1.

[143] The 2020 Notes Offering Circular was officially released on September 16, 2016. October 21, 2016 was the final deadline for 2017 Noteholders to tender their notes and receive the additional (17% or 22%) face value in the Exchange. *See* "PDVSA Announces Extension of the Early Tender Deadline and the Expiration Date for its Offers to Exchange its Outstanding 5.250% Senior Notes due 2017 and 8.50% Senior Notes due 2017 for New 8.50% Senior Secured Notes due 2020," *PR Newswire*, October 17, 2016. (https://www.prnewswire.com/news-releases/pdvsa-announces-extension-of-the-early-tender-deadline-and-the-expiration-date-for-its-offers-to-exchange-its-

have not lost any money through the Exchange because the total value they received from the investment exceeded their Investment Cost.

A. Exchanging Investors Who Bought Tendered 2017 Notes *At Issuance* Have Not Lost Money On Their Investment

86. In Scenario 1, I examine if Exchanging Investors would have lost money on their investment if they had bought the 2017 Notes they tendered in the Exchange on these Notes' issuance dates. The details of my calculations are shown in Exhibit 3A (for the April 2017 Notes) and Exhibit 3B (for the November 2017 Notes).

87. For the *April 2017 Notes* tendered in the exchange, I calculated: [144]

a. *The Investment Cost* of buying the April 2017 Notes on the issuance date (April 12, 2007) was $0.791 billion, which constitutes 100% of the Investment Cost shown in Figure 1A upper panel, first bar.

b. *Cash Flows through Today* to Exchanging Investors were **153%** of their Investment Cost. (See Figure 1A upper panel, second bar.)

c. In addition, as of today, the Market Value of 2020 Notes received in the Exchange equaled **15%** of the Investment Cost. ("Market Value of 2020 Notes" shown in Figure 1A upper panel, third bar.)

88. Thus, by buying April 2017 Notes at issuance, tendering those notes for 2020 Notes in the Exchange and holding the 2020 Notes through today, the total value received by investors would equal **168%** of their Investment Cost ("Total Value Received" shown in Figure 1A upper panel, fourth bar).

89. Similarly, for the *November 2017 Notes* tendered in the Exchange, I calculated: [145]

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outstanding-5250-senior-notes-due-2017-and-850-senior-notes-due-2017-for-new-850-senior-secured-notes-due-2020-300346322.html).

[144] *See also* Exhibit 3A. I use the secondary market price in my analysis because that is a reasonable estimate of the price at which investors outside Venezuela would have been able to buy the 2017 Notes.

[145] *See also* Exhibit 3B.

a. *Investment Cost* on the Notes' of buying the November 2017 Notes on the issuance dates was $1.971 billion, which constitutes 100% of the Investment Cost shown in Figure 1A lower panel, first bar.[146]

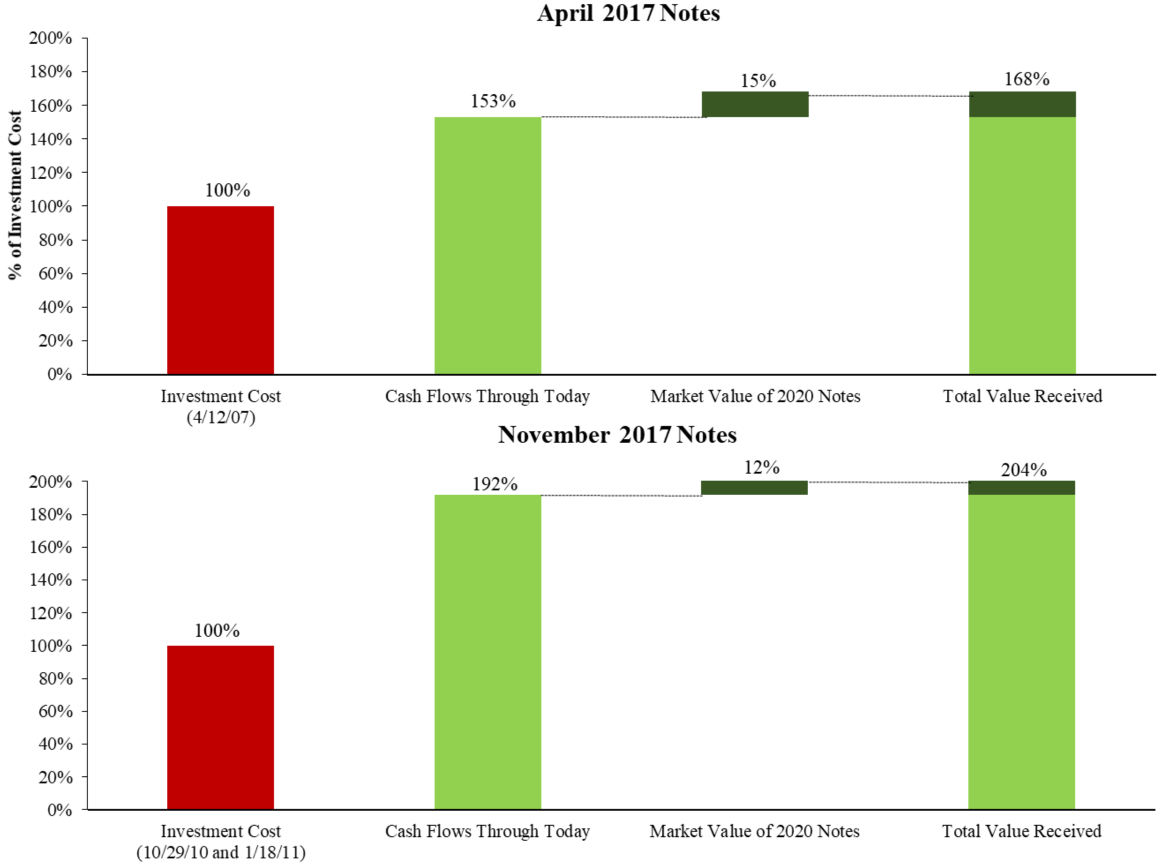
b. *Cash Flows through Today* to Exchanging Investors were **192%** of their Investment Cost**.** (See Figure 1A lower panel, second bar.)

c. In addition, as of today, the Market Value of 2020 Notes received in Exchange equaled **12%** of the Investment Cost. ("Market Value of 2020 Notes" shown in Figure 1A lower panel, third bar.)

90. Thus, by buying November 2017 Notes at issuance, tendering those notes for 2020 Notes in the Exchange and holding the 2020 Notes through today, the total value received by investors would equal **204%** of their Investment Cost ("Total Value Received" shown in Figure 1A lower panel, fourth bar).

[146] I calculate Investment Cost in this scenario as well as the next based on the 2017 Notes secondary market price on the purchase date. I use the secondary market price in my analysis because that is a reasonable estimate of the price at which investors outside Venezuela would have been able to buy the 2017 Notes.

Figure 1A: Total Value Received Assuming Exchanging Investors Had Purchased 2017 Notes On Their Issuance Dates



Source: Data are from Bloomberg L.P.

B. Exchanging Investors Who Bought Tendered 2017 Notes During The *Exchange Offer Window* Have Not Lost Money On Their Investment

91. In Scenario 2, for illustrative purposes I examine if Exchanging Investors would have lost money on their investment if they had bought the 2017 Notes they tendered in the Exchange shortly before the Exchange Date, *i.e.,* during the tender offer window (September 16, 2016 – October 21, 2016). The only difference between Scenario 1 and 2 is the assumed Purchase Date. The details of my calculations, which are analogous to the calculations I discussed above for Scenario 1 are shown in Exhibit 4A (for the April 2017 Notes) and Exhibit 4B (for the November 2017 Notes).

92. For the *April 2017 Notes* tendered in the exchange, I calculated: [147]

a. *The Investment Cost* of buying the April 2017 Notes during the tender offer window equals $0.773 billion, which constitutes 100% of the Investment Cost shown in Figure 1B upper panel, first bar.

b. *Cash Flows through Today* to Exchanging Investors were **96%** of their Investment Cost.

c. In addition, as of today, the Market Value of 2020 Notes received in the Exchange equaled **15%** of the Investment Cost. ("Market Value of 2020 Notes" shown in Figure 1B upper panel, third bar.)

93. Thus, by buying April 2017 Notes during the tender offer window, tendering those notes for 2020 Notes in the Exchange and holding the 2020 Notes through today, the total value received by investors would equal **111%** of their Investment Cost ("Total Recovery" shown in Figure 1B upper panel, fourth bar).

94. Similarly, for the *November 2017 Notes* tendered in the Exchange, I calculated:[148]

a. *Investment Cost* of buying the November 2017 Notes during the tender offer window (September 16, 2016 – October 21, 2016) equals $1.623 billion, which constitutes 100% of the Investment Cost shown in Figure 1B lower panel, first bar.

b. *Cash Flows through Today* to Exchanging Investors were **98%** of the Investment Cost. (See Figure 1 lower panel, second bar.)

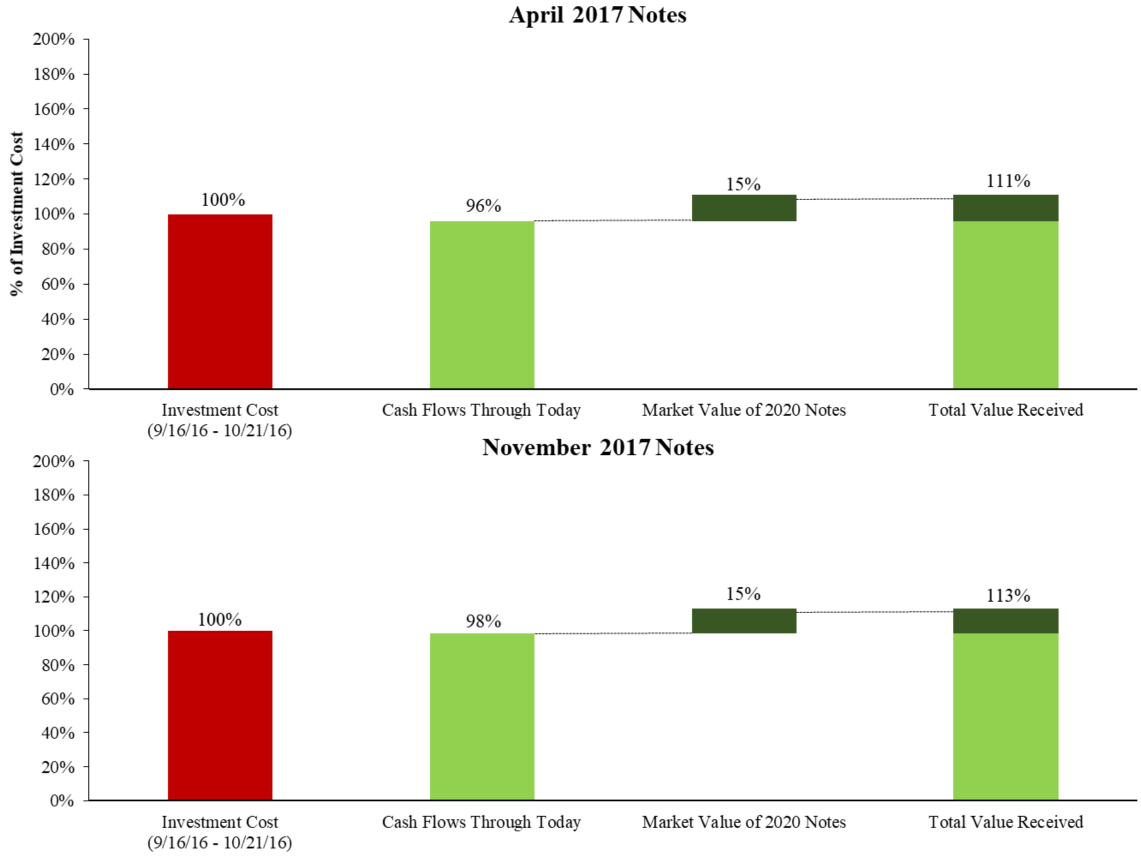
c. In addition, as of today, the Market Value of the 2020 Notes received in Exchange equaled **15%** of the Investment Cost. ("Market Value of 2020 Notes" shown in Figure 1B lower panel, third bar.)

95. Thus, in total by buying November 2017 Notes during the tender offer window, tendering those notes for 2020 Notes in the Exchange and holding the 2020 Notes through today, the total value received by investors would equal **113%** of their Investment Cost ("Total Recovery" shown in Figure 1B lower panel, fourth bar).

[147] *See also* Exhibit 4A.

[148] *See also* Exhibit 4B.

Figure 1B: Total Value Received Assuming Exchanging Investors Had Purchased 2017 Notes During the Tender Offer Window



Source: Data are from Bloomberg L.P

96. Thus, my analyses indicate that if Exchanging Investors bought the 2017 Notes they exchanged for 2020 Notes either on the 2017 Notes' issuance dates or during the tender offer window (Scenarios 1 and 2, respectively), and held the 2020 Notes they obtained in the Exchange through today, they would not have lost money on their investment.

David C. Hinman

Appendix A

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PROFESSIONAL EXPERIENCE

Hinman Capital Services (HCS) Newport Beach
Principal/CEO 2017 - Present

- Financial services advisor
- Litigation consultant and expert witness

SALIENT PARTNERS (Acquired SW Asset Management) Newport Beach
Senior Portfolio Manager 2015 - 2017

- Headed emerging market debt and US high yield credit businesses
- Formulated corporate debt strategy and managed a team of credit analysts
- Performed cash and derivative trade execution for bonds and currencies

SW ASSET MANAGEMENT Newport Beach
Co-founder and Chief Investment Officer 2009 - 2015

- Developed business model for a dedicated emerging market debt advisor
- Formed and co-managed a hedge fund and several sub-advised mutual funds
- Performed trade execution and oversaw the credit selection process

DRAKE MANAGEMENT New York
Global Head of Credit 2006 - 2009

- Developed credit strategy and portfolio structure for emerging market and US corporate credit in traditional and alternative portfolios
- Led a team of portfolio managers and analysts in Istanbul, NYC and Sao Paulo

ARES MANAGEMENT Century City
Head of Capital Markets Group 2005 - 2006

- Managed all non-private equity and non-CLO portfolios
- Formulated event-driven bond, loan and derivatives ideas

PIMCO Newport Beach
Credit Portfolio Manager 1995 - 2005

- Structured and managed closed-end credit mutual funds and CDOs
- Formed and staffed a dedicated bank loan execution desk
- Co-managed high yield mutual funds and separate accounts
- Led a team that analyzed alternative credit instruments
- Coordinated cash, synthetic and structured product trading

EDUCATION, LICENSES AND PROFESSIONAL DESIGNATIONS

- M.B.A. (Finance) The Wharton School of the University of Pennsylvania, 1995
- B.S. (Corporate Finance and Investment Management) The University of Alabama, 1989 (*magna cum laude*)
- Passed Series 3, 63, 65 and 7 examinations
- Chartered Financial Analyst (CFA) since 1998

David C. Hinman Expert Witness

Expert Witness Engagements

United States v. Jean Boustani et al. (United States District Court, Eastern District Of New York, Case No. 18-CR-681). (2019)

Appendix B: Materials Relied Upon

Complaints and Other Legal Documents

Complaint for Declaratory and Injunctive Relief dated October 29, 2019 in *Petróleos de Venezuela, S.A., PDVSA Petróleo, S.A., and PDV Holding, Inc. v. MUFG Union Bank and GLAS Americas LLC* in the United States District Court in the Southern District of New York

Complaint Exhibit C, "Resolutions on the Current Financial Situation of Petroleos de Venezuela, S.A.," National Assembly of the Bolivarian Republic of Venezuela, September 27, 2016. Translated by TransPerfect.

Complaint Exhibit D, "Resolutions that Reiterates the Invalidity of PDVSA's 2020 Bonds," National Assembly of the Bolivarian Republic of Venezuela, October 15, 2019. Translated by TransPerfect.

Defendants' Answer and Counterclaims dated December 18, 2019 in *Petróleos de Venezuela, S.A., PDVSA Petróleo, S.A., and PDV Holding, Inc. v. MUFG Union Bank, N.A. and GLAS Americas LLC* in the United States District Court in the Southern District of New York

Counterclaims Exhibit C, "Indenture," October 2016

Counterclaims Exhibit D, "Pledge and Security Agreement," October 2016

Deposition of Xin Xu, Petróleos De Venezuela, S.A., PDVSA Petróleo, S.A., and PDV Holding, Inc., Plaintiffs and Counterclaim Defendants, v. MUFG Union Bank, N.A. And GLAS Americas LLC, Defendants and Counterclaim Plaintiffs, United States District Court, Southern District Of New York

Offering Circulars And Related Material

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Valerie Cerra, "Inflation and the Black Market Exchange Rate in a Repressed Market: A Model of Venezuela," *IMF Working Paper,* WP/16/159, August 2016

Appendix B: Materials Relied Upon

Produced Documents	Bates Range
Ashmore Production	
Emails from Javier Kulesz to Jan Dehn, Herbert Saller, and Xin Xu, "Jefferies LatAm Sovns – Venezuela commentary," dated August 1, 2016	ASH_00000018 – 021
Email from Ben Ramsey to Jan Dehn, Herbert Saller, Xin Xu, Michael Aubenas, and Pablo Goldberg, "Weekly," dated August 3, 2016	ASH_00000030 – 034
Emails from Javier Kulesz to Jan Dehn, Herbert Saller, and Xin Xu, "Venezuela and Argentina commentary," dated August 25, 2016	ASH_00000043 – 045
Javier Zorilla, "Waiting on the World to (Ex)change," *J.P. Morgan,* September 22, 2016	ASH_00000173 – 197
Email from Javier Kulesz to Ricardo Xavier, Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Segio Trigo Paz and 26 others, "Jefferies LatAm Sovns – Venezuela commentary," dated September 27, 2016	ASH_00000224 – 226
Email from GS Macro Economics Research to Jan Dehn, Herbert Saller, and Xin Xu, "LATAM Today: October 13, 2016," dated October 13, 2016	ASH_00000275 – 280
Email from Javier Kulesz to Jan Dehn, "Jefferies LatAm Sovns - Venezuela and Argentina commentary," dated October 24, 2016	ASH_00000392 – 396
Email from Siobhan Morden to undisclosed recipients, "Nomura | Venezuela: it's all about politics," *Nomura,* August 10, 2016	ASH_00000666 – 668
Email from Siobhan Morden to Patrick Haller, Michel Aubenas, Pablo Goldberg and 27 others, "Venezuela | PdVSA exchange," *Nomura* , September 18, 2016	ASH_00000743 – 746
Emails from Javier Kulesz to Jan Dehn, Herbert Saller, and Xin Xu, "Jefferies LatAm Sovns – Venezuela commentary," dated August 1, 2016	ASH_00001421 – 424
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Email from Javier Kulesz to Ricardo Xavier, Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Segio Trigo Paz and 26 others, "Jefferies LatAm Sovns – Venezuela commentary," dated September 27, 2016	ASH_00001519 – 521
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Email from Meilee Wong to Xin Xu, "LATAM: Venezuela: PDVSA Swap in the Works - Questions Remain on Legislature's Role," dated September 13, 2016	ASH_00002364 – 366
Email from Russ Dalen, "FT: Venezuelan oil major's debt swap - the beginning of the end?" dated September 26, 2016	ASH_00002429 – 432
Email from Javier Kulesz to Ricardo Xavier, Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Segio Trigo Paz and 26 others, "Jefferies LatAm Sovns – Venezuela commentary," dated September 27, 2016	ASH_00002433 – 435

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Email from Mark Coombs to Xin Xu, "Re:," dated October 26, 2016	ASH_00003732
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Email from Victor Fu to Jan Dehn, "Stifel EM (V.Fu): PdVSA: cautious on the front-end rally on a co," dated October 25, 2016	ASH_00004359 – 361
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Emails from Javier Kulesz to Xin Xu, Jan Dehn, Herbert Saller, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Jefferies LatAM Sovns – Venezuela and Argentina commentary," dated October 26, 2016	ASH_00006137 – 141
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Emails from Javier Kulesz to Xin Xu, Jan Dehn, Herbert Saller, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Jefferies LatAM Sovns – Venezuela and Argentina commentary," dated October 26, 2016	ASH_00007140 – 144
BlackRock Production	
Email from Ben Ramsey to Jan Dehn, Herbert Saller, Xin Xu, Michael Aubenas, and Pablo Goldberg, "Weekly," dated August 3, 2016	BLA_00000001 – 005
Emails from Javier Kulesz to Michel Aubenas, Pablo Goldberg, Amer Bisat, Silvio Zanardini, and Sergio Trigo Paz, "Venezuela and Argentina commentary," dated August 25, 2016	BLA_00000009 – 011
Emails from Javier Kulesz to Pablo Goldberg, "Jefferies LatAm Sovns – Venezuela commentary," dated August 1, 2016	BLA_00000024 – 027
Emails from Javier Kulesz to Michel Aubenas, Pablo Goldberg, Amer Bisat, Silvio Zanardini, and Sergio Trigo Paz, "Venezuela and Argentina commentary," dated August 25, 2016	BLA_00000354 – 356
Email from Siobhan Morden to Patrick Haller, Michel Aubenas, Pablo Goldberg and 27 others, "Venezuela | PdVSA exchange," *Nomura*, September 18, 2016	BLA_00000556 – 558
Email from Javier Kulesz to Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 27 others, "Jeffries LatAm Sovns – The PDVSA swap," dated September 19, 2016	BLA_00000640 – 642
Email from Javier Kulesz to Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 27 others, "Jeffries LatAm Sovns – The PDVSA swap," dated September 19, 2016	BLA_00000643 – 645
Email from Javier Kulesz to Ricardo Xavier, Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Segio Trigo Paz and 26 others, "Jefferies LatAm Sovns – Venezuela commentary," dated September 27, 2016	BLA_00000860 – 862
Email from Javier Kulesz to Ricardo Xavier, Jan Dehn, Herbert Saller, Xin Xu, Pablo Goldberg, Segio Trigo Paz and 26 others, "Jefferies LatAm Sovns – Venezuela commentary," dated September 27, 2016	BLA_00000863 – 865
Email from Javier Kulesz to Jan Dehn, "Jefferies LatAm Sovns – PDVSA's swap and Argentina's Euro bond deal," dated October 5, 2016	BLA_00001075 – 079
Email from GS Macro Economics Research to Pablo Goldberg, "LATAM Today: October 13, 2016," dated October 13, 2016	BLA_00001162 – 167
Email from Dan Gelfand to Blackrock employees, "FW: PDVSA : Swap extended again and the clock is ticking," dated October 13, 2016 attaching Javier Zorrilla, Ben Ramsey, and Trang Nguyen, "PDVSA Swap Extended Again and the Clock is Ticking," *J.P. Morgan*, October 13, 2016	BLA_00001171 – 175

Appendix B: Materials Relied Upon

Emails from Javier Kulesz to Xin Xu, Jan Dehn, Herbert Saller, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Jefferies LatAM Sovns – Venezuela and Argentina commentary," dated October 26, 2016	BLA_00001608 – 611
Emails from Javier Kulesz to Xin Xu, Jan Dehn, Herbert Saller, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Jefferies LatAM Sovns – Venezuela and Argentina commentary," dated October 26, 2016	BLA_00001612 – 616
Email from John Salvesen to John Salvesen "Opening Salvo - EM - METALS, VENZ/PDVSA, ARGENT, ODBR, JBSSBZ," dated October 27, 2016	BLA_00001623 – 628
Email from Dan Gelfand to BlackRock employees, "FW: Venezuela: Political Risk Outweighs Fleeting Payment Relief" dated October 28, 2016 attaching "Latin America Economics Analyst: Venezuela: Political Risk Outweighs Fleeting Payment Relief," *Goldman Sachs Economic Research* , dated October 28, 2016	BLA_00001683 – 696
Email from Javier Kulesz to Jan Dehn, "Jefferies LatAm Sovns – PDVSA's swap and Argentina's Euro bond deal," dated October 5, 2016	BLA_00003275 – 279
Email from Ben Ramsey to Jan Dehn, Herbert Saller, Xin Xu, Michael Aubenas, and Pablo Goldberg, "Weekly," dated August 3, 2016	BLA_00003334 - 338
Emails from Jane Brauer to Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Venezuela Goodies: Congressional Research Service Report just released 22 Aug," dated August 23, 2016	BLA_00003431
Emails from Jane Brauer to Xin Xu, Pablo Goldberg, Sergio Trigo Paz and 25 others, "Venezuela Goodies: Congressional Research Service Report just released 22 Aug," dated August 23, 2016	BLA_00003488 – 489
Emails from Javier Kulesz to Michel Aubenas, Pablo Goldberg, Amer Bisat, Silvio Zanardini, and Sergio Trigo Paz, "Venezuela and Argentina commentary," dated August 25, 2016	BLA_00003557 – 559
Email from Pablo Goldberg to Michel Aubenas, "Re: (BFW) Venezuela Opposition Reaches Political, Economic Accords w/Govt," dated November 13, 2016	BLA_00003918 – 919
Emails from Javier Kulesz to Michel Aubenas, Pablo Goldberg, Amer Bisat, Silvio Zanardini, and Sergio Trigo Paz, "Venezuela and Argentina commentary," dated August 25, 2016	BLA_00004441 – 443
Email from Siobhan Morden to Patrick Haller, Michel Aubenas, Pablo Goldberg and 27 others, "Venezuela | PdVSA exchange," *Nomura* , September 18, 2016	BLA_00004810 – 811
Contrarian Capital Production	
Mark A. Walker and Richard J. Cooper, "Venezuela's Restructuring: A Realistic Framework," dated September 19, 2017	CON_00002368 - 380
UBS Production	
Alejo Czerwonko, "Venezuela bonds: Of politics and swaps," *UBS,* September 19, 2016	UBS-PDV000001 – 009

Exhibit 1
Value of CITGO Collateral as of July 2019 Implied by Fitch's Analysis

			($ billion)
CITGO Holding Co. going concern value	[A]	$	4.55
CITGO Holding debt	[B]	$	1.87
CITGO Holding equity	[C]= [A] - [B]	$	2.68
Collateral Value	**[D]= 50.1% × [C]**	**$**	**1.34**

Notes and Sources:

[1] Fitch estimated CITGO Petroleum's "residual value" (net of the subsidiary's debt) to be "approximately $3.3 billion." Fitch calculated the parent entity's (CITGO Holding's) going concern value as equal to the residual value of its subsidiary ($3.3 billion) plus CITGO Holding's "midstream assets" ($400 million), and cash ($186 million). This total equals $3.9 billion. However, this sum is net of $0.65 billion of administrative claims (which Fitch calculated as 10% of CITGO Petroleum's $6.5 billion enterprise value). I add back this $0.65 billion of estimated administrative claims to the afore-mentioned sum of $3.9 billion because I am valuing CITGO Holding on a going concern basis, not on a liquidation basis, as Fitch has done. The resulting sum, $4.55 billion (calculated as $3.9 billion plus $0.65 billion) is the parent, CITGO Holding's, value as a going concern, less its subsidiary's debt.

[2] "Fitch Assigns 'B+'/'RR1' Expected Rating to CITGO Holdco Issuances; Upgrades Holdco IDR to 'CCC+'," Fitch Ratings, July 16, 2019.

[3] CITGO Holding debt from Bloomberg L.P.

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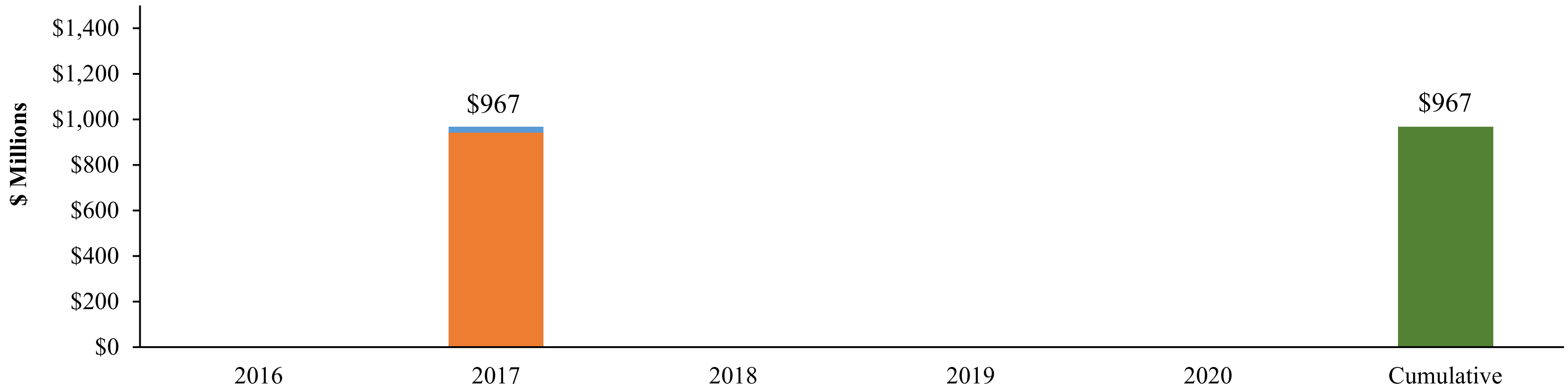
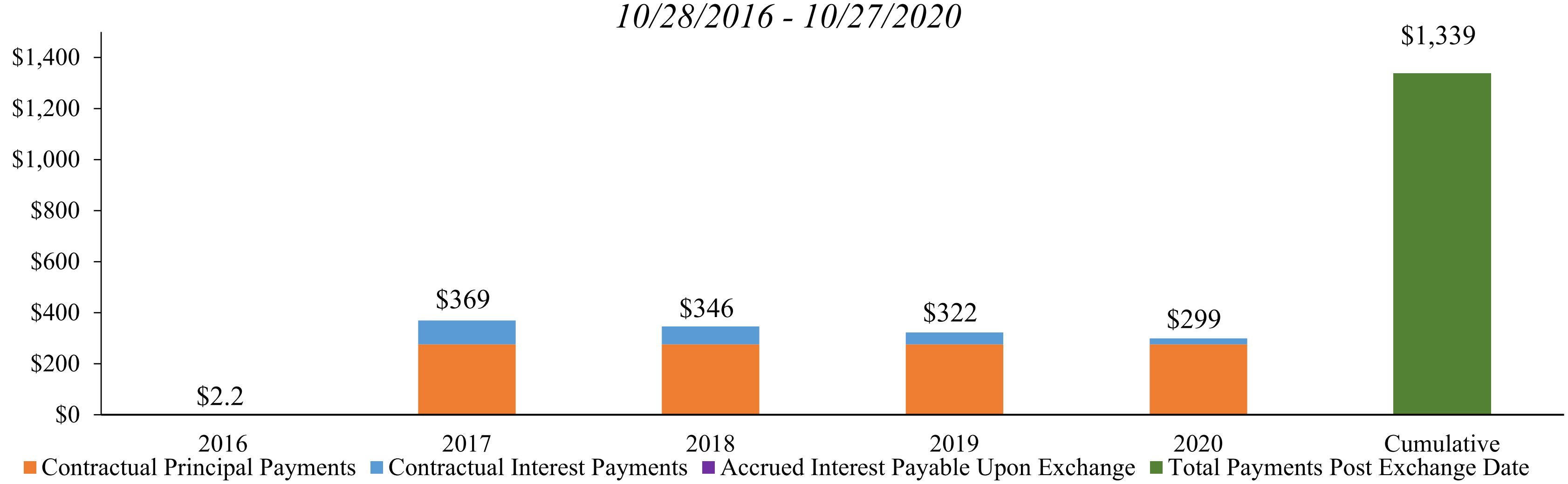
Exhibit 2A
April 2017 Notes
Contractual Payments on Tendered Notes Without Exchange
10/28/2016 - 4/12/2017

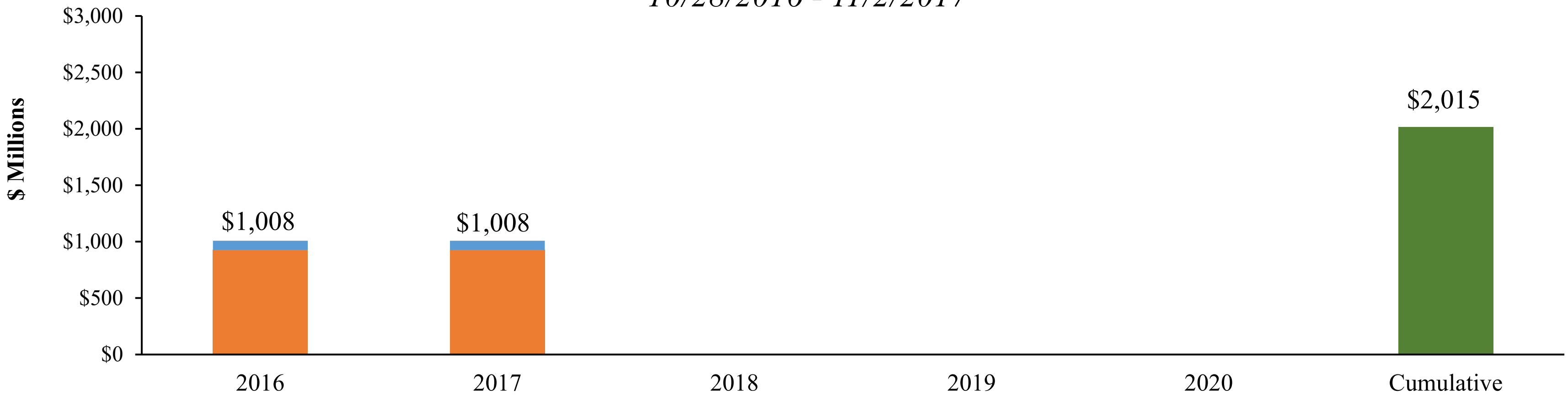


April 2017 Notes
Contractual Payments on Tendered Notes With Exchange
10/28/2016 - 10/27/2020

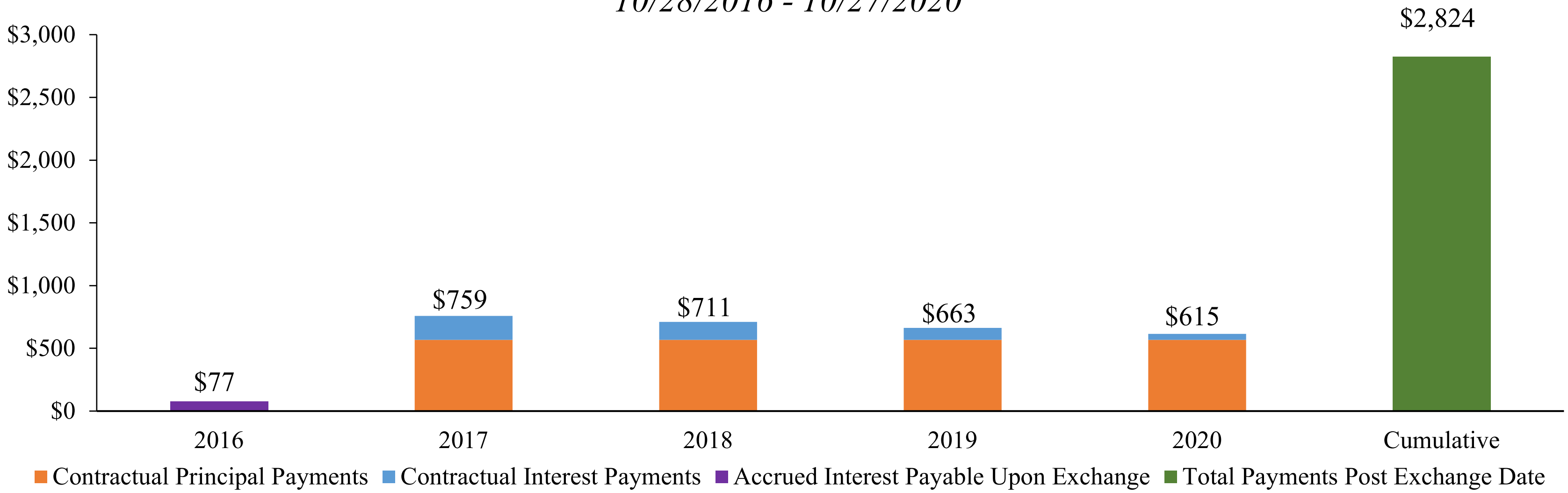


Note and Source:
[1] Accrued Interest Payable Upon Exchange in 2016 of $2.20 is too small to appear on chart.
[2] Data are from Bloomberg L.P.

Exhibit 2B
November 2017 Notes
Contractual Payments on Tendered Notes Without Exchange
10/28/2016 - 11/2/2017



November 2017 Notes
Contractual Payments on Tendered Notes With Exchange
10/28/2016 - 10/27/2020



<u>Source:</u> Data are from Bloomberg L.P.

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Exhibit 3A
April 2017 Notes
Investor Cash Flow Since Initial Investment

$942 Million PDVSA April 2017 Notes Purchased on April 12, 2007

		April 2017 Notes Holders Who Participated in Exchange		
PDVSA April 2017 Notes			**$ millions (except prices)**	**Value as % of Investment Cost**
Original face value exchanged before amortization	[A]	$	942.1	
April 2017 Notes price on April 12, 2007	[B]		83.95	
Investment Cost of April 2017 Notes exchanged	[C]= [A] × [B]/100	$	790.9	100%
Total interest payments received before 2016 Exchange	[D]	$	469.9	
Accrued interest on April 2017 Notes received at 2016 Exchange	[E]	$	2.2	
Total payments received from the April 2017 Notes	[F] = [D] + [E]	$	472.1	
October 2016 Exchange				
Exchange Ratio [1]	[G]		1.17	
Face value of October 2020 Notes received in the Exchange	[H] = [A] × [G]	$	1,102.3	
Total principal payments received from 2020 Notes after Exchange	[I]	$	551.1	
Total interest payments received from 2020 Notes after Exchange	[J]	$	187.4	
Total payments received from 2020 Notes after Exchange	[K] = [I] + [J]	$	738.5	
Cash Flows through Today (March 13, 2020)	[L] = [F] + [I] + [J]	$	1,210.6	153.07%
Difference between amount received and amount invested as of today	[M] = [L] - [C]	$	419.7	
Principal outstanding of 2020 Notes as of today	[N] = [H] - [I]	$	551.1	
Price of 2020 Notes today	[O]		21.43	
Market Value of 2020 Notes [2]	[P] = [N] x [O]/100	$	118.1	14.93%
Total Recovery as of today including market value of outstanding 2020 Notes	[Q] = [L] + [P]	$	1,328.7	168.00%

Exhibit 3A

April 2017 Notes

Investor Cash Flow Since Initial Investment

$942 Million PDVSA April 2017 Notes Purchased on April 12, 2007

Note:

[1] Interest payments assume that all April 2017 Notes holders received 1.17 2020 Notes and all November 2017 Notes holders received 1.22 2020 Notes. Actual exchange ratios vary because the principal of 2020 Notes received in the exchange was rounded down to the nearest $1,000. Under this assumption, the principal of the 2020 Notes is $3,368,007,015. The true principal of the 2020 Notes is $3,367,529,000.

[2] As of the time that this report was prepared, the last available pricing data on the 2020 Notes was as of March 13, 2020. Thus, I use this date to estimate the Market Value of 2020 Notes for purposes of my analysis.

Sources:

[A] Bond prices from Bloomberg L.P. include accrued interest.

[B] Offers to Exchange Offering Circular, Petroleos de Venezuela, S.A., September 16, 2016.

[C] Supplement to Offers to Exchange Offering Circular, Petroleos de Venezuela, S.A., September 26, 2016.

[D] April 2017 Bond Prospectus, Petroleos de Venezuela, S.A., December 4, 2007.

[E] "PDVSA Announces Expiration and Final Results for its Offer to Exchange," Petroleos de Venezuela, S.A., October 24, 2016.

[F] "PDVSA Announces Settlement of the Exchange Offers of its Outstanding 5.25% Senior Notes due 2017 and 8.5% Senior Notes due 2017 for New 8.5% Senior Secured Notes due 2020," PR Newswire, October 28, 2016.

[G] "PDVSA Holders Say They Haven't Got Coupon on Citgo-Backed Bonds," Bloomberg, November 29, 2017.

[H] "Venezuela oil giant PDVSA avoids catastrophic debt default, despite Trump waging 'economic war'," CNBC, October 27, 2017.

[I] "Venezuela PDVSA bondholders to receive late payment by Thursday: sources," Reuters, October 31, 2017.

[J] "PDVSA Bondholders Said to Receive Interest Payment on 2020 Note," Bloomberg, May 2, 2018.

[K] "UPDATE 1- Investors receiving payment on PDVSA 2020 bond-sources," Reuters, October 30, 2018.

[L] "PDVSA bond interest payment authorized," Kallanish Energy News, April 26, 2019.

[M] "Venezuela Defaults on Its Last Bond, Setting up Legal Showdown," Bloomberg News, October 28, 2019.

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Exhibit 3B
November 2017 Notes
Investor Cash Flow Since Initial Investment
$2,786 Million PDVSA November 2017 Notes of Initial Face Value Purchased on October 29, 2010 and January 18, 2011

		November 2017 Notes Holders Who Participated in Exchange		
PDVSA November 2017 Notes			**$ millions (except prices)**	**Value as % of Investment Cost**
Original Face value exchanged before amortization	[A]	$	2,785.8	
November 2017 Notes price on October 29, 2010	[B]		70.87	
November 2017 Notes price on January 18, 2011	[C]		70.66	
Weighted Average November 2017 Notes price on issuance dates [1]	[D]		70.76	
Weighted Average Investment Cost of November 2017 Notes exchanged	[E] = [A] × [D]/100	$	1,971.2	100%
Total principal payments received before 2016 Exchange	[F]	$	928.6	
Total interest payments received before 2016 Exchange	[G]	$	1,262.9	
Accrued interest on November 2017 Notes received at 2016 Exchange	[H]	$	77.2	
Total payments received from the November 2017 Notes	[I] = [F] + [G] + [H]	$	2,268.6	
October 2016 Exchange				
Total principal outstanding before the 2016 Exchange	[J] = [A] - [F]	$	1,857.2	
Exchange Ratio [2]	[K]		1.22	
Face value of October 2020 Notes received in the Exchange	[L] = [J] × [K]	$	2,265.7	
Total principal payments received from 2020 Notes after Exchange	[M]	$	1,132.9	
Total interest payments received from 2020 Notes after Exchange	[N]	$	385.2	
Total payments received from 2020 Notes after Exchange	[O] = [M] + [N]	$	1,518.1	
Cash Flows through Today (March 13, 2020)	[P] = [I] + [M] + [N]	$	3,786.7	192.10%
Difference between amount received and amount invested as of today	[Q] = [P] - [E]	$	1,815.5	
Principal outstanding of 2020 Notes as of today	[R] = [L] - [M]	$	1,132.9	
Price of 2020 Notes today	[S]		21.43	
Market Value of 2020 Notes [3]	[T] = [R] x [S]/100	$	242.7	12.31%
Total Recovery as of today including market value of outstanding 2020 Notes	[U] = [P] + [T]	$	4,029.4	204.41%

Exhibit 3B
November 2017 Notes
Investor Cash Flow Since Initial Investment
$2,786 Million PDVSA November 2017 Notes of Initial Face Value Purchased on October 29, 2010 and January 18, 2011

Note:

[1] Weighted Average November 2017 Notes price on issuance dates assumes that out of Note holders who participated in the exchange, the split between Note holders who purchased on the first and second issuance date is the same proportion as the original issuance.

[2] Interest payments assume that all April 2017 Notes holders received 1.17 2020 Notes and all November 2017 Notes holders received 1.22 2020 Notes. Actual exchange ratios vary because the principal of 2020 Notes received in the exchange was rounded down to the nearest $1,000. Under this assumption, the principal of the 2020 Notes is $3,368,007,015. The true principal of the 2020 Notes is $3,367,529,000.

[3] As of the time that this report was prepared, the last available pricing data on the 2020 Notes was as of March 13, 2020. Thus, I use this date to estimate the Market Value of 2020 Notes for purposes of my analysis.

Sources:

[A] Bond prices from Bloomberg L.P. include accrued interest.

[B] Offers to Exchange Offering Circular, Petroleos de Venezuela, S.A., September 16, 2016.

[C] Supplement to Offers to Exchange Offering Circular, Petroleos de Venezuela, S.A., September 26, 2016.

[D] November 2017 Bond Prospectus, Petroleos de Venezuela, S.A., March 17, 2011.

[E] "PDVSA Announces Expiration and Final Results for its Offer to Exchange," Petroleos de Venezuela, S.A., October 24, 2016.

[F] "PDVSA Announces Settlement of the Exchange Offers of its Outstanding 5.25% Senior Notes due 2017 and 8.5% Senior Notes due 2017 for New 8.5% Senior Secured Notes due 2020," PR Newswire, October 28, 2016.

[G] "PDVSA Holders Say They Haven't Got Coupon on Citgo-Backed Bonds," Bloomberg, November 29, 2017.

[H] "Venezuela oil giant PDVSA avoids catastrophic debt default, despite Trump waging 'economic war'," CNBC, October 27, 2017.

[I] "Venezuela PDVSA bondholders to receive late payment by Thursday: sources," Reuters, October 31, 2017.

[J] "PDVSA Bondholders Said to Receive Interest Payment on 2020 Note," Bloomberg, May 2, 2018.

[K] "UPDATE 1- Investors receiving payment on PDVSA 2020 bond-sources," Reuters, October 30, 2018.

[L] "PDVSA bond interest payment authorized," Kallanish Energy News, April 26, 2019.

[M] "Venezuela Defaults on Its Last Bond, Setting up Legal Showdown," Bloomberg News, October 28, 2019.

Exhibit 4A
April 2017 Notes
Investor Cash Flow Since Exchange Offering

$942 Million PDVSA April 2017 Notes Purchased During Tender Offer Window

		April 2017 Notes Holders Who Participated in Exchange		
PDVSA April 2017 Notes			**$ millions (except prices)**	**Value as % of Investment Cost**
Total principal outstanding exchanged	[A]	$	942.1	
October 2016 Exchange				
Average daily market price of April 2017 Notes during tender offer window (September 16, 2016 - October 21, 2016)	[B]		82.01	
Average Market value of April 2017 Notes tendered during tender offer window	[C] = [A] × [B]/100	$	772.6	100%
Accrued interest on April 2017 Notes received at 2016 Exchange	[D]	$	2.2	
Total principal payments received from 2020 Notes after Exchange	[E]	$	551.1	
Total interest payments received from 2020 Notes after Exchange	[F]	$	187.4	
Total payments received from 2020 Notes after Exchange	[G] = [E] + [F]	$	738.5	
Cash Flows through Today (March 13, 2020) [1], [2]	[H] = [D] + [E] + [F]	$	740.7	95.87%
Difference between amount received and amount invested as of today	[I] = [H] - [C]	$	(31.9)	
Principal outstanding of 2020 Notes as of today	[J]	$	551.1	
Price of 2020 Notes today	[K]		21.43	
Market Value of 2020 Notes [3]	[L] = [J] x [K]/100	$	118.1	15.28%
Total Recovery as of today including market value of outstanding 2020 Notes	[M] = [H] + [L]	$	858.8	111.16%

Exhibit 4A
April 2017 Notes
Investor Cash Flow Since Exchange Offering
$942 Million PDVSA April 2017 Notes Purchased During Tender Offer Window

Note:

[1] Accrued interest received at the exchange is included in the calculation of total payments received by investors because the investment cost basis is calculated using the Bloomberg prices that include accrued interest.

[2] Interest payments assume that all April 2017 Notes holders received 1.17 2020 Notes and all November 2017 Notes holders received 1.22 2020 Notes. Actual exchange ratios vary because the principal of 2020 Notes received in the exchange was rounded down to the nearest $1,000. Under this assumption, the principal of the 2020 Notes is $3,368,007,015. The true principal of the 2020 Notes is $3,367,529,000.

[3] As of the time that this report was prepared, the last available pricing data on the 2020 Notes was as of March 13, 2020. Thus, I use this date to estimate the Market Value of 2020 Notes for purposes of my analysis.

Sources:

[A] Bond prices from Bloomberg L.P. include accrued interest.

[B] Offers to Exchange Offering Circular, Petroleos de Venezuela, S.A., September 16, 2016.

[C] Supplement to Offers to Exchange Offering Circular, Petroleos de Venezuela, S.A., September 26, 2016.

[D] April 2017 Bond Prospectus, Petroleos de Venezuela, S.A., December 4, 2007.

[E] "PDVSA Announces Expiration and Final Results for its Offer to Exchange," Petroleos de Venezuela, S.A., October 24, 2016.

[F] "PDVSA Announces Settlement of the Exchange Offers of its Outstanding 5.25% Senior Notes due 2017 and 8.5% Senior Notes due 2017 for New 8.5% Senior Secured Notes due 2020," PR Newswire, October 28, 2016.

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[J] "PDVSA Bondholders Said to Receive Interest Payment on 2020 Note," Bloomberg, May 2, 2018.

[K] "UPDATE 1- Investors receiving payment on PDVSA 2020 bond-sources," Reuters, October 30, 2018.

[L] "PDVSA bond interest payment authorized," Kallanish Energy News, April 26, 2019.

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Exhibit 4B
November 2017 Notes

Investor Cash Flow Since Exchange Offering
$2,786 Million PDVSA November 2017 Notes of Initial Face Value Purchased During Tender Offer Window

		November 2017 Notes Holders Who Participated in Exchange		
PDVSA November 2017 Notes			**$ millions (except prices)**	**Value as % of Investment Cost**
Total principal outstanding exchanged	[A]=[B]-[C]	$	1,857.2	
Face value at issuance	[B]	$	2,785.8	
Total principal payments received before 2016 Exchange	[C]	$	928.6	
October 2016 Exchange				
Average daily market price of November 2017 Notes during tender offer window (September 16, 2016 - October 21, 2016)	[D]		87.37	
Average Market value of November 2017 Notes tendered during tender offer window	[E] = [A] × [D]/100	$	1,622.6	100%
Accrued interest on November 2017 Notes received at 2016 Exchange	[F]	$	77.2	
Total principal payments received from 2020 Notes after Exchange	[G]	$	1,132.9	
Total interest payments received from 2020 Notes after Exchange	[H]	$	385.2	
Total payments received from 2020 Notes after Exchange	[I] = [G] +[H]	$	1,518.1	
Cash Flows through Today (March 13, 2020) [1], [2]	[J] = [F] + [G] + [H]	$	1,595.2	98.31%
Difference between amount received and amount invested as of today	[K] = [J] - [E]	$	(27.4)	
Principal outstanding of 2020 Notes as of today	[L]	$	1,132.9	
Price of 2020 Notes today	[M]		21.43	
Market Value of 2020 Notes [3]	[N] = [L] x [M]/100	$	242.7	14.96%
Total Recovery as of today including market value of outstanding 2020 Notes	[O] = [J] + [N]	$	1,838.0	113.27%

Exhibit 4B

November 2017 Notes

Investor Cash Flow Since Exchange Offering

$2,786 Million PDVSA November 2017 Notes of Initial Face Value Purchased During Tender Offer Window

Note:

[1] Accrued interest received at the exchange is included in the calculation of total payments received by investors because the investment cost basis is calculated using the Bloomberg prices that include accrued interest.

[2] Interest payments assume that all April 2017 Notes holders received 1.17 2020 Notes and all November 2017 Notes holders received 1.22 2020 Notes. Actual exchange ratios vary because the principal of 2020 Notes received in the exchange was rounded down to the nearest $1,000. Under this assumption, the principal of the 2020 Notes is $3,368,007,015. The true principal of the 2020 Notes is $3,367,529,000.

[3] As of the time that this report was prepared, the last available pricing data on the 2020 Notes was as of March 13, 2020. Thus, I use this date to estimate the Market Value of 2020 Notes for purposes of my analysis.

Sources:

[A] Bond prices from Bloomberg L.P. include accrued interest.

[B] Offers to Exchange Offering Circular, Petroleos de Venezuela, S.A., September 16, 2016.

[C] Supplement to Offers to Exchange Offering Circular, Petroleos de Venezuela, S.A., September 26, 2016.

[D] November 2017 Bond Prospectus, Petroleos de Venezuela, S.A., March 17, 2011.

[E] "PDVSA Announces Expiration and Final Results for its Offer to Exchange," Petroleos de Venezuela, S.A., October 24, 2016.

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[K] "UPDATE 1- Investors receiving payment on PDVSA 2020 bond-sources," Reuters, October 30, 2018.

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[M] "Venezuela Defaults on Its Last Bond, Setting up Legal Showdown," Bloomberg News, October 28, 2019.